

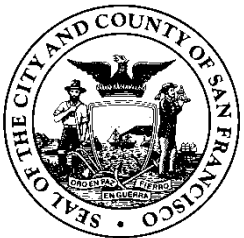
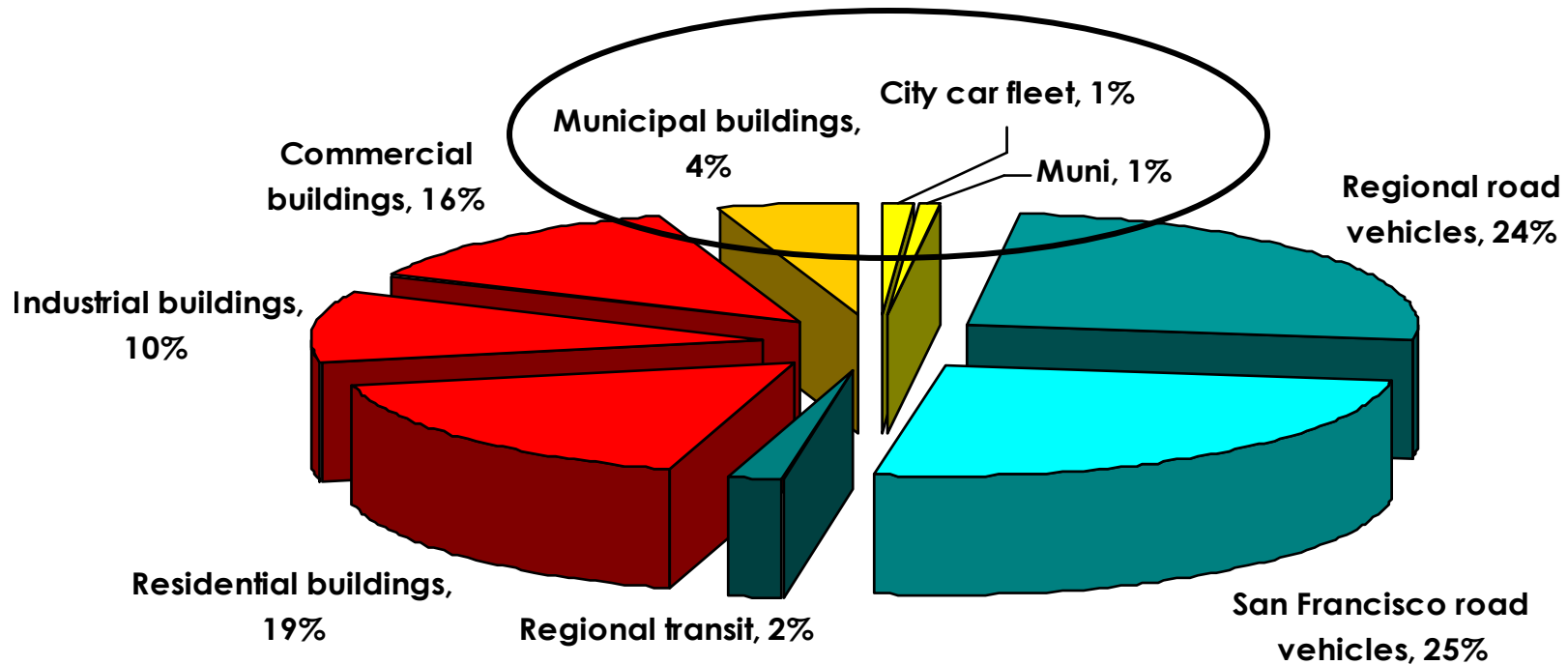
# San Francisco's PACE Program: GreenFinanceSF

**Johanna Partin**

Director of Climate Protection Initiatives  
Office of Mayor Gavin Newsom  
City & County of San Francisco

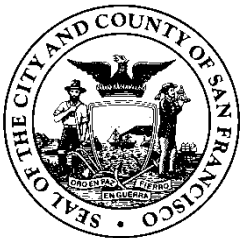
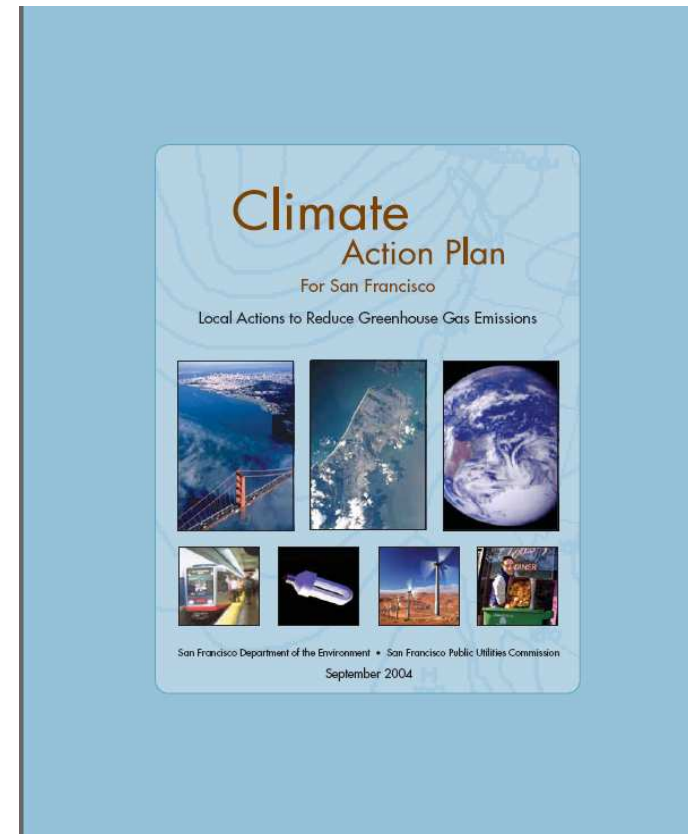


# San Francisco's Carbon Footprint



# San Francisco's Climate Action Goals

- Reduce CO<sub>2</sub> to 20% below 1990 levels by 2012
  - Reduce 400,000 tons CO<sub>2</sub>/year through EE
  - 50 MW in-city renewables
  - 75% waste diversion by 2010; 100% diversion by 2020
  - Carbon neutral transportation system by 2030

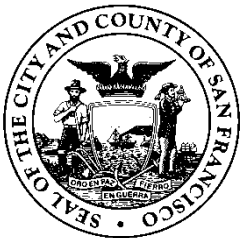




# GreenFinanceSF

---

Saving You Money, Energy and Water



# What is PACE?

## Property Assessed Clean Energy

City or county creates type of land-secured financing district or similar legal mechanism



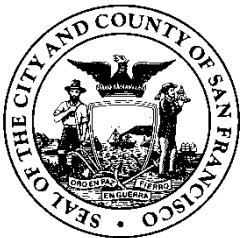
Property owners voluntarily sign-up for financing and install energy and water projects



Proceeds from PACE bond or other financing provided to property owner to pay for energy and water projects



Property owner repays bond through property tax bill (up to 20 years)



## Goals

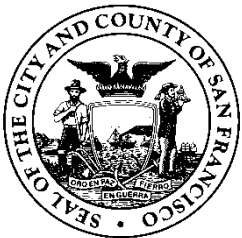
- Reduce GHG
- Create jobs
- Provide financing option

## Stakeholders

- City
- Bondholders
- Property Owners
- Contractors

## Considerations

- Legal
- Financial
- Policy



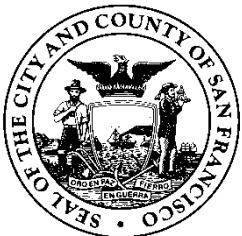
# Program Team

## City

- Mayor's Office
- Office of Public Finance
- Dept. of Environment
- SFPUC
- City Attorney
- Office of Tax Collector
- Office of Assessor-Recorder

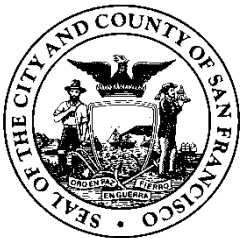
## Consultants

- Program Administrator
- Bond Purchasers/  
Finance Partners
- Financial Advisor
- Bond Counsel



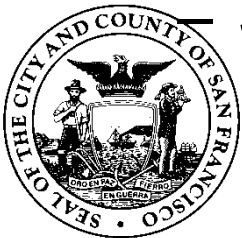
# Projects Financed

- Residential & Commercial
- Eligible Measures:
  - Energy Efficiency
  - Renewable Energy
  - Water conservation
  - EV chargers



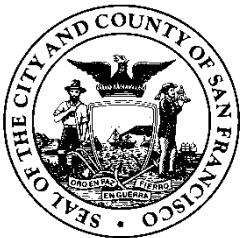
# Eligibility

- Current on property taxes & mortgage payments
- Financing not to exceed 10% property value (assessed or AVM)
- Min \$5,000; Max:
  - Residential: \$50,000
  - Commercial: None
- Requirements:
  - \$300 application fee
  - Energy audit or Water Wise evaluation
  - Solar PV & EV: 20% energy efficiency improvement



# Financing Source

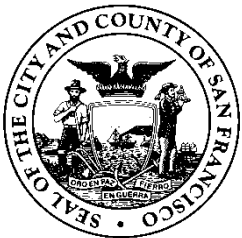
- Privately funded through bond sales – no impact on General Fund
  - First \$10 M: Renewable Funding
- Federal Stimulus (EECBG & SEP) grants
- Track 1: Projects up to \$50,000 – microbonds
- Track 2: Larger commercial projects – pooled bond approach
- Owner identified financing



# Stats

as of May 5, 2010

- Applications received: 13
  - Application fee paid: 6
  - Denied or withdrawn: 2
- Financing requested: \$303,605
- Projects:
  - EE: 33 (air sealing & ventilation, insulation, HVAC, water heating, windows)
  - Solar PV: 3
  - Water: 1 (irrigation controller)



# How 3 F's have Killed\* PACE in the U.S.

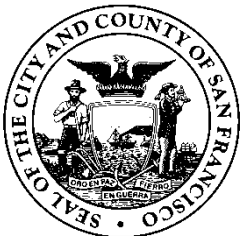
*\* or at least, critically wounded*

## The Players:

- Fannie Mae
- Freddie Mac
- Federal Housing Finance Agency (FHFA)

## Timeline:

- May 5, 2010: Fannie & Freddie lender letters
- July 6, 2010: FHFA Guidance



## Key Statements

- Object to senior lien status of PACE “loans”
- Fannie/Freddie will not purchase mortgages on properties with PACE assessments
- Includes refi’s and future mortgages
- Fannie/Freddie will “adjust loan-to-value ratios to reflect maximum permissible PACE loan [sic] amount available to borrowers in PACE jurisdictions”



## FEDERAL HOUSING FINANCE AGENCY



### STATEMENT

For Immediate Release  
July 6, 2010

**Contact:** Corinne Russell (202) 414-6921  
Stefanie Mullin (202) 414-6376

### FHFA Statement on Certain Energy Retrofit Loan Programs

After careful review and over a year of working with federal and state government agencies, the Federal Housing Finance Agency (FHFA) has determined that certain energy retrofit lending programs present significant safety and soundness concerns that must be addressed by Fannie Mae, Freddie Mac and the Federal Home Loan Banks. Specifically, programs denominated as Property Assessed Clean Energy (PACE) seek to foster lending for retrofits of residential or commercial properties through a county or city's tax assessment regime. Under most of these programs, such loans acquire a priority lien over existing mortgages, though certain states have chosen not to adopt such priority positions for their loans.

First liens established by PACE loans are unlike routine tax assessments and pose unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors. The size and duration of PACE loans exceed typical local tax programs and do not have the traditional community benefits associated with taxing initiatives.

FHFA urged state and local governments to reconsider these programs and continues to call for a pause in such programs so concerns can be addressed. First liens for such loans represent a key alteration of traditional mortgage lending practice. They present significant risk to lenders and secondary market entities, may alter valuations for mortgage-backed securities and are not essential for successful programs to spur energy conservation.

While the first lien position offered in most PACE programs minimizes credit risk for investors funding the programs, it alters traditional lending priorities. Underwriting for PACE programs results in collateral-based lending rather than lending based upon ability-to-pay, the absence of Truth-in-Lending Act and other consumer protections, and uncertainty as to whether the home improvements actually produce meaningful reductions in energy consumption.

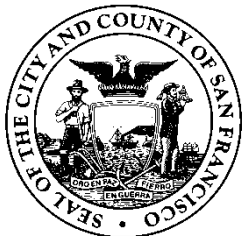
Efforts are just underway to develop underwriting and consumer protection standards as well as energy retrofit standards that are critical for homeowners and lenders to understand the risks and rewards of any energy retrofit lending program. However, first liens that disrupt a fragile housing finance market and long-standing lending priorities, the absence of robust underwriting standards to protect homeowners and the lack of energy retrofit standards to assist homeowners, appraisers, inspectors and lenders determine the value of retrofit products combine to raise safety and soundness concerns.

## Impacts

- All residential PACE programs shut down
- USDOE notifying grant recipients that Stimulus \$ no longer to be used for PACE
- Projects halted; EE/RE contractors laid off
- Significant blow for EE/RE and CO<sub>2</sub> emissions reductions

## Next Steps

- Legislation
- Litigation



## FEDERAL HOUSING FINANCE AGENCY



### STATEMENT

For Immediate Release  
July 6, 2010

**Contact:** Corinne Russell (202) 414-6921  
Stefanie Mullin (202) 414-6376

### FHFA Statement on Certain Energy Retrofit Loan Programs

After careful review and over a year of working with federal and state government agencies, the Federal Housing Finance Agency (FHFA) has determined that certain energy retrofit lending programs present significant safety and soundness concerns that must be addressed by Fannie Mae, Freddie Mac and the Federal Home Loan Banks. Specifically, programs denominated as Property Assessed Clean Energy (PACE) seek to foster lending for retrofits of residential or commercial properties through a county or city's tax assessment regime. Under most of these programs, such loans acquire a priority lien over existing mortgages, though certain states have chosen not to adopt such priority positions for their loans.

First liens established by PACE loans are unlike routine tax assessments and pose unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors. The size and duration of PACE loans exceed typical local tax programs and do not have the traditional community benefits associated with taxing initiatives.

FHFA urged state and local governments to reconsider these programs and continues to call for a pause in such programs so concerns can be addressed. First liens for such loans represent a key alteration of traditional mortgage lending practice. They present significant risk to lenders and secondary market entities, may alter valuations for mortgage-backed securities and are not essential for successful programs to spur energy conservation.

While the first lien position offered in most PACE programs minimizes credit risk for investors funding the programs, it alters traditional lending priorities. Underwriting for PACE programs results in collateral-based lending rather than lending based upon ability-to-pay, the absence of Truth-in-Lending Act and other consumer protections, and uncertainty as to whether the home improvements actually produce meaningful reductions in energy consumption.

Efforts are just underway to develop underwriting and consumer protection standards as well as energy retrofit standards that are critical for homeowners and lenders to understand the risks and rewards of any energy retrofit lending program. However, first liens that disrupt a fragile housing finance market and long-standing lending priorities, the absence of robust underwriting standards to protect homeowners and the lack of energy retrofit standards to assist homeowners, appraisers, inspectors and lenders determine the value of retrofit products combine to raise safety and soundness concerns.

An aerial photograph of the Golden Gate Bridge in San Francisco, California. The bridge's two prominent towers and suspension cables are visible, spanning across the blue water of the Golden Gate Strait. In the background, the dense urban landscape of San Francisco is visible under a bright blue sky with scattered white clouds. The foreground shows green, grassy hills.

# Thank You

Johanna Partin  
johanna.partin@sfgov.org  
(415) 554-6640