



not accelerate, and the amount that is owed is only that tax year's payment and any past-due amounts.

HB 5878 would also establish nation-leading stringent consumer protections in the statute, with a particular emphasis on seniors and low-income households. These protections include:

- a requirement that the interest rates be fixed, and payments must be fully amortizing
- a live and recorded phone call to confirm that the homeowner understands the written disclosures which outline the project costs, interest rate, term and expected annual payment on the assessment.
- a prohibition on commissions to contractors because the homeowner signed up with them to use PACE
- restrictions on the amount of financing that can be obtained as compared to the home's value, the homeowner's income, and any existing mortgage on the property
- five business days for a homeowner who signs up for PACE to rescind the agreement without consequence, no questions asked

In addition, PACENation and the leading Residential PACE firms recently announced a comprehensive series of consumer protection policies which were developed in conjunction with consumer law experts, civil rights organizations, and environmental and faith-based organizations. These commitments go above and beyond HB 5878's requirements, and include forbearance avoidance policies and low-income homeowner financial hardship protections.

**Lien Position:**

Some stakeholders in the banking community have expressed opposition to Residential PACE because property assessed financing, by definition, is secured by a priority lien on the property. It is important to recognize that a PACE assessment has the same lien priority as special assessments that are common in townships and counties across Michigan and across the country. The reason that those in opposition to PACE do not object to these special assessments, in my opinion, is that they regard PACE as a potential competitor.

Ultimately, it is this priority lien, and the reliability provided by the property assessment mechanism, which allows PACE administrators to offer favorable terms to homeowners to make critical improvements to their homes.

**Encumbrance of Title:**

PACE works exactly the same way as a mortgage and home equity line of credit (HELOC) - all three are secured by a lien on the property's title, or an encumbrance.

Like a PACE assessment, mortgages and HELOCs also encumber the title, and at the time of sale or refinance, the Federal Housing Finance Authority requires homeowners to pay them off. In a sale or refinance, there is absolutely no difference between a second mortgage, HELOC and a PACE assessment, as far as encumbrance is concerned. However, second mortgages and HELOCs are financial products which compete with PACE - hence the objections.

Thank you for considering our testimony as you evaluate this important legislation.



March 22, 2022

Testimony in **SUPPORT** of House Bill No. 5878 (Rep. Outman), the Residential PACE Act, before the House Energy Committee

Submitted by Juan Martinez, Managing Director, Residential PACE Programs at PACENation

Thank you Chair Bellino, Vice-Chair Markannen, Vice-Chair Manoogian:

I am the Director of Residential PACE programs at PACENation, the national non-profit organization that represents the state and local governments, environmental advocates, private capital providers and other stakeholders who support PACE.

**PACENation strongly supports this bill**, because it allows cities, townships and counties to set up Residential PACE programs which would provide your constituents a safe and affordable financing option to cut their energy bills, make sure their home is warm in the winter, replace lead contaminated service lines, convert septic to sewer, and more.

#### **How PACE Works**

Homeowners pay a PACE assessment as a line item on their property tax bill – the same as an assessment for a school, sewer or park. The property assessment mechanism is very secure, which allows PACE lenders to offer advantageous terms for homeowners such as low interest rates, fixed interest rates, and a long repayment period. This combination of factors means monthly PACE assessment payments tend to be much more affordable than other forms of financing like a home equity loan, personal loan or credit card, especially for homeowners who don't have stellar FICO scores.

#### **PACE's Impact**

To date, over 300,000 homeowners have used PACE to make energy efficiency, clean energy, or resiliency improvements to their homes. These projects have created over 150,000 jobs and avoided over 12 million tons of carbon from entering the atmosphere.

A robust Residential PACE program that reached fifteen percent of Michigan homeowners over the next two generations will create over 250,000 jobs, predominantly in the construction and manufacturing fields. The program would also add more than \$30 billion in economic activity to the State, without taxpayer funds.

#### **PACE Protects Homeowners**

Several years of data from over 300,000 PACE assessments shows that the property assessment mechanism reduces the risk of default – fewer than 0.01% of homeowners (or 1 in 10,000) fail to pay their R-PACE assessment, a rate that is far lower than the default rate on mortgages.

The property assessment mechanism protects homeowners. If a homeowner defaults on a mortgage, the entire balance of the mortgage “accelerates” and becomes due instantaneously. In contrast, because PACE financing is repaid as an assessment, the remainder of the balance does