



House Energy Committee Hearing on PACE - HB 5878
March 23, 2022

PACE introduction

- Good morning, my name is Leah Wiggs and I'm with Renew Financial. Renew Financial is a leading residential PACE provider in the U.S, who's founders created the industry. As you've already heard today, PACE provides private capital for public purposes.
- There are few, if any private financing tools that serve a public purpose like PACE does – to empower American homeowners to make environmental safety and resiliency improvements that strengthen their homes and level the playing field to create financial equity for your constituents. As a result, American homeowners are living more secure, more comfortable, and more sustainable lives
- PACE is popular — and successful — because it enables local governments to attract private capital for hard-to-achieve resilience goals, like increased water safety, home air safety (to combat the spread of COVID 19), increased energy savings, water conservation, and reduced air pollution. And it does so at no cost to the government.
- PACE solves a common problem that many property owners face when considering how to finance home improvement projects:
 - how to afford the high upfront costs of getting a project started, with only limited spare funds at their disposal. With PACE, it's possible for qualified homeowners to finance 100% of their project costs with no down payment or out of pocket expenses required.

What is needed in Michigan to make this available to residential homeowners?

- PACE is innovative, but special assessments are hardly new. PACE uses the tax assessment mechanism in exactly the way that it is intended: as a means for local governments to leverage the capital markets to achieve important policy goals for their constituents. With both traditional special assessments, and PACE, constituents must approve the assessment -- by individually entering into an assessment contract. PACE is a completely voluntary program for homeowners.
 - The government is simply facilitating a financing agreement between a private lender and a private borrower, and the government is fully reimbursed.

Foreclosures

- Due to strong consumer protections and careful underwriting standards, PACE homeowners foreclose at a lower rate than homeowners nationwide. In the first PACE market, no foreclosure sales have occurred because of Renew Financial PACE assessments and based on a recent government report for 2019-2020 only 5 foreclosures were reported statewide out of over 22,000 assessments.
- In exceptionally rare cases of foreclosure, it's important to note that R-PACE program administrators do not foreclose. Most often foreclosing entities are either: 1) The mortgage lender, where a mortgage is in arrears; or 2) The local government, where property taxes are in arrears. While foreclosures are a very rare but unfortunate reality, PACE is seldom the primary or even secondary cause for this financial hardship.
- Renew Financial created a now industry standard Hardship Assistance Program, which is intended to reduce the risk of a missed PACE payment becoming the primary cause of foreclosure. Renew Financial is committed to working with homeowners when a temporary hardship strikes so that a missed PACE payment does not stop them from getting back on their feet. If Hardship Assistance Program criteria are met, Renew Financial will make the next PACE payment on the homeowner's behalf without requiring repayment.

- If it's the mortgage holder you are concerned about rather than the property owner, In September of 2013, the first R-PACE marked authorized the development of a **\$10M** PACE Loss Reserve Program to support residential PACE financing programs and to protect first mortgage lenders from losses attributable to PACE liens. **That fund has only been tapped once since inception.**
- The industry has considered a similar loan loss reserve program for Michigan, if that would satisfy the bankers.

Lien Position

- There are some concerns with PACE due to its priority lien position. However, it's precisely the lien position that makes the economic and sustainability benefits of PACE possible. Without it, PACE would not be able to expand access to efficiency and resiliency upgrades for millions of qualified homeowners. The lien position is also what allows for lower interest rates, more affordable monthly payments, and longer payback periods that match the useful life of the home improvements being made.
- PACE's assessment-based structure is essential to our ability to offer better pricing. Priority lien status makes PACE such a secure investment that the capital markets embrace lower interest rates with those savings passed on to homeowners.
- PACE is a non-ad valorem assessment, it is a senior lien by law just like other non-ad valorem assessments that provide community benefits.
- The lien position allows property owners to utilize long term financing to pay for home improvements with no up-front costs. The lien position allows for financing with longer terms because of the security of the lien. Longer finance terms allow for property owners to pay for the cost of the improvements over a longer period of time and subsequently have smaller, more affordable annual payments as compared to many other financing options.
- The lien also allows for low cost of capital, which keeps rates and costs low to customers. Additionally, one of the essential tenants of a PACE assessment is that it is collected in the same manner as all other property taxes, this is both convenient for property owners and a strong consumer protection. Without the lien position, PACE would cease to be a true property tax assessment and there would not be a viable PACE market. No state with a junior PACE position has ever succeeded to bring in private capital or start a residential program.
- PACE offers qualified homeowners access to capital at prime rates with strong consumer protections and flexible repayment terms. No other financing product on the market does this – not mortgages, not HELOCs, and certainly not credit cards or unsecured loans.

Closing

- Today, I ask each of you to support the residential PACE bill (HB 5878) to allow **private capital** to serve **Michigan for the public good**.
- I am available for questions and will share my testimony with you in written form following this hearing - Thank you for your time today