R-PACE MYTHS & FACTS

Residential PACE (R-PACE) would be enabled in Michigan through House Bill 5878, which creates a voluntary program for homeowners to finance certain home improvements. The financing is repaid by a homeowner through assessments collected on their property tax bill.

MYTH: State R-PACE legislation would mandate R-PACE statewide.

FACT: House Bill 5878 enables local governments to opt into R-PACE. Local governments retain control regarding whether to allow R-PACE within their jurisdictions.

MYTH: R-PACE assessments can affect municipal tax codes.

FACT: R-PACE assessments have no impact on a town or city's municipal tax code. R-PACE assessments show up as a line item on the homeowner's property tax bill and a homeowner pays their PACE assessments in the same manner as their property taxes, either directly to their county or through their mortgage impound account.

Property owners are able to utilize R-PACE programs for individual improvements to their property that provide public benefit. This is identical to neighborhoods or communities voting to impose a new school bond, or sidewalk improvement to the district. The only difference with R-PACE relating to the taxing structure is that the assessment is applied to a single property at one time, not multiple properties. This means that it is a voluntary choice for a property owner to accept the additional assessment on their property.

MYTH: There are fees or costs for local governments to opt in to R-PACE programs.

FACT: There is no cost to local governments to opt in to R-PACE programs administered through a commercial provider. However, local governments have the ability under House Bill 5878 to set up their own R-PACE programs, which would incur costs.

MYTH: R-PACE assessments are subsidized by tax dollars.

FACT: R-PACE assessments are not subsidized with taxpayer dollars. R-PACE programs offer the opportunity for homeowners to leverage private capital for the public benefit while limiting the government from being overly involved in the administrative process. This limits government funds being used for similar projects.

A homeowner who participates in government home improvement incentive programs can usually pair that program with R-PACE. The rebate or incentive goes directly to the homeowner rather than to the financing company, ultimately putting more money in the homeowner's pocket.

R-PACE is simply a voluntary financing option for homeowners who seek to make eligible home improvements.

MYTH: The complete costs of R-PACE are not clear or transparent to homeowners.

FACT: R-PACE assessments show up as a line item on the homeowner's property tax bill.
The cost of an R-PACE assessment is clearly disclosed to homeowners before a financing agreement is signed – in both written disclosures and in telephone calls that commercial providers make directly to homeowners to ensure they understand the terms of the assessment.

R-PACE requires the financing fully amortize over the term and utilize only fixed interest rates. Thus, the homeowner knows exactly what they will have to pay each year for their R-PACE assessment and that does not change.

MYTH: R-PACE can only be used for clean energy and energy efficiency improvements.

FACT: R-PACE can serve a public purpose specific to each state's public policy needs. House Bill 5878 would allow R-PACE in Michigan to be used for water safety, air quality improvements, and environmental hazard projects, as well as for renewable energy systems and energy efficiency improvements. This would include mitigating lead in potable water systems, connecting to a central sewage system, and replacing old septic/drain field systems.

R-PACE MYTHS & FACTS

MYTH: R-PACE doesn't offer many consumer protections and predatory lending is common within R-PACE Programs.

FACT: The consumer protections with R-PACE go above and beyond those offered by common financing alternatives and the R-PACE industry has taken many steps to prevent predatory lending and other unethical practices. Most recently, in November 2021, R-PACE providers voluntarily agreed to comply with a comprehensive list of 22 consumer protection policies nationwide. These include adopting homeowner identification verification policies, providing language services for individuals for whom English is a second language, establishing contractor enrollment and training processes, and establishing additional protections for homeowners over aged 75 and low-income homeowners. Many consumer protections are also included in House Bill 5878.

MYTH: R-PACE assessments promote expensive property upgrades.

FACT: HB 5878 contains several provisions that limit the amount that a homeowner can finance. Additionally, R-PACE providers have agreed to 22 consumer protection policies nationwide that include protections related to the costs of improvements.

MYTH: R-PACE is the only assessment that holds a senior lien position and other lenders take a back seat until the R-PACE assessment is paid off in full.

FACT: An R-PACE assessment is a non-ad valorem assessment that is a senior lien by law, just like other non-ad valorem assessments that provide community benefits and just like property taxes. That status makes R-PACE a secure investment, which is how lenders are able to offer lower interest rates and longer finance terms. Those lower interest rates and longer finance terms allow for property owners to have smaller, more affordable annual payments as compared to many other financing options.

When a mortgage holder initiates a foreclosure on a property with an R-PACE assessment, the mortgage lender seeks to collect the remaining balance of the mortgage. The only amount of the R-PACE assessment that must be paid first is the overdue portion of the PACE assessment – typically a few thousand dollars. Any future scheduled payments on the R-PACE assessment will continue to be billed annually to the next homeowner, but are not immediately due – just like property taxes.

MYTH: The federal government won't back mortgages on properties with an R-PACE assessment and requires that all R-PACE assessments be paid off prior to a sale or refinance.

FACT: Fannie Mae and Freddie Mac will not purchase a *new* mortgage that has an R-PACE assessment on it, but adding an R-PACE assessment to a mortgage currently in their portfolio does not have any impact on whether they keep it in their portfolio.

It is only when the property is purchased that it may require payoff. Specifically, if a homeowner sells their home to a buyer that is using a Freddie or Fannie mortgage, the homeowner and buyer must negotiate the pay-off of the R-PACE assessment – just like with a HELOC. If the buyer does not have a Freddie or Fannie mortgage, the R-PACE assessments are disclosed at the time of property sale, and the remaining unpaid balance may be able to transfer to the new property owner. Transferring of the assessment is a point of negotiation between the buyer and seller.