February Brown Bag: Residential PACE Lending
Wednesday, Feb. 12th, Noon
Notes taken by Catherine Chervenak

For more details, see the slides presented at the forum by downloading them from the Organize! Ohio website.

David Mann from the Lucas County Landbank presented first:
- Residential PACE is a funding mechanism to streamline efficiency and renewable energy development by leveraging the security of special assessments of the municipality on the property tax collected by the county
- The Residential PACE program involves 5 parties:
  - 1. The property owner (borrower)
  - 2. The special energy improvement district (authorizer)
  - 3. The lender (funder)
  - 4. The municipality (assessor)
  - 5. The county (collector)
- In Ohio the special assessment is the same in effect as the property tax which can make the property owner vulnerable to foreclosure
- The special assessment cost is seamless with the property tax
- Renovate America is a for-profit financial technology lender
- Port authorities are trying to make PACE work for people in a scalable way by working with Renovate America as an administrator
- David estimates that Residential PACE loans typically have a 6-9% interest rate

Steve Sharpe from the National Consumer Law Center presented next:
- He acknowledges that there is a real need for this type of lending, but wants to ensure that the product is safe and that it is filling the need it is designed to fill
- PACE loans essentially function like mortgage loans
  - If they are not paid, tax foreclosure can be the result
- Under the Renovate America model, contractors will be going door-to-door soliciting the loans
  - This has already been observed in CA under a similar program
- Problems with this type of program have been seen in CA
  - Contractor misrepresentation
  - Poor and unnecessary work
  - Exorbitant costs
  - Inability to repay
- The financial crisis has already demonstrated the critical importance of rigorously analyzing people’s ability to pay before granting a loan
  - A rigorous analysis of a person’s ability to pay should include third party documentation of a person’s income and debt
  - The plan being put forth currently in Ohio does not include third party documentation, but instead simply requires a customer to attest on the spot to their debts and income
- Other consumer protection measures that should be taken include:
- Right to rescind
  - There is currently a right to rescind as required by Ohio law, but the program would not require borrowers to be given a physical copy of the contract which makes their actual ability to rescind questionable
- Specified contractor requirements and monitoring
- Clear consumer remedies
- A clear watchdog who connects consumers with ability to pay issues with the mechanism to address that issue

David Mann then provided more information on the PACE pilot program already underway in Toledo
- The Lucas County Landbank has been working with the Heritage Home program to invest in repairing older homes.
  - They provide pro-bono advice on home improvement, PACE loans, and contractor guidance
  - NOT through Renovate America
- The program is funded through the Port Authority, but the land bank does all the work of helping the borrower and monitoring contractors, etc.
- Interest rate on loans is about 4.25% on a 5-10 year term
- The process includes an energy audit and a rigorous ability to pay analysis including documentation
- Ability to pay is very important to get right because the county treasurers have very little ability to write down this type of loan even if they want to
- The land bank then holds the money and only releases it to the contractor once a consumer is satisfied
- This model moves a lot slower than that suggested by Renovate America, but provides a lot more security
- This model also is a costly public service

Frank Ford from the Western Reserve Land Conservancy then presented
- He is concerned by the potential of a poorly designed residential PACE lending program to exacerbate delinquent tax issues
- There is a great need for home repair in Cuyahoga County
  - C-rated properties need this type of lending the most
    - About 12,000 properties on the East side of Cleveland
    - About 4,700 properties on the West side of Cleveland
- Home repair loans are not currently equitably accessible in Cuyahoga County
- The majority of PACE loan borrowers will be people already vulnerable to tax delinquency
  - These communities were hit hardest by the foreclosure crisis
  - Any residential PACE loan program must be designed with maximum caution to protect these homeowners
- Major concerns with the residential PACE program as put forth by Renovate America:
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- No independent assessment of home repairs
- No documentation of ability to repay