

PACE Loans in the News

6/4/17 Los Angeles Times “These loans were created to help homeowners but for some they did the opposite” by Andrew Khouri with quotes by John Rao. Part 1 of 2.

6/4/17 Los Angeles Times “With some borrowers struggling with a new kind of home-improvement loan, reforms are on the table” by Andrew Khouri with quote by John Rao. Part 2 of 2.

April 30, 2016 CBS Los Angeles “Goldstein Investigation: How Going Green Might Have You Seeing Red In The End”

Summary:

“Dan and Kerry Mason (Bellflower, CA) are nearing retirement and hired All American Design after hearing their sales pitch. “They came in and he said your utilities are going to be cut in half. And basically the installation and all would be covered with government programs. Rebate Programs.’ Mason said.”

“But it turns out the government program they thought they signed up for was really a private company called Ygrene... And the \$37,000 cost of the solar wasn’t covered by a government program at all but is paid through an assessment on their property taxes. At 6 ½ percent interest, it works out to nearly \$5,000 a year for 10 years.”

Quotes:

“There was no mention that the cost was going on to their property taxes, Mason said.”

“Nyssa Wilson of the state contractors license board says the Mason are typical targets of salespeople pushing green energy. ‘I would say a good number of our complaints come from the elderly,’ Wilson said.”

“He (the sales representative from All American Design) told the client that their home would be part of a HERO program- that stands for Home Energy Renovation Opportunity. It’s a private company like Ygrene, approved by local governments to set up repayment of loans through the homeowner’s property taxes... it’s not a government entity. But you’d never know it from his pitch.”

“What Sanchez didn’t say was that state licensing board has recommended that All American Design’s license be suspended or revoked because of numerous unrelated violations.”

“The Masons say their effort to go green has now derailed their retirement plans if it means they can’t sell their home.”

Oct 10, 2016 MarketWatch “These government-approved high-interest green loans are turning mortgage lending upside down”

“When Lucia Chavez saw her mortgage bill, she thought there had to be a mistake. For years, the 70-year-old Vista, California homeowner had paid about \$990 every month. But in early 2015, after solar panels were installed on her roof, Chavez, a retiree, discovered a total of \$1,500, a sum she couldn’t afford, had been paid from her bank account. Chavez said the company that pitched her on the panels, Fidelity Home Energy, did not explain how expensive they would be, nor suggest that she consider a different means of financing other than the loan they offered, which has a 10.32% interest rate and gets paid as part of her mortgage bill. They did tell her she’d get a \$10,000 tax break - but not that such an incentive is useless to people at her income level.”

“I feel bad and I didn’t sleep some nights because I was so upset,’ Chavez said in an interview. “I feel bad that at my age they did that to me.”

June 2, 2016 San Gabriel Valley Tribune “Watch out for these green-energy improvement loans that put homeowners at financial risk”

“A loan program that helps California homeowners pay for energy-efficient upgrades is also putting them at financial risk, experts say.”

“‘PACE loans look and act like loans, but they are really a tax lien on your property tax bill,’ said Kevin Pendergraft, CEO of Pacific Community Credit Union, which has branches in La Habra and Irvine. ‘If a consumer runs into financial problems, they will never be able to avail themselves of bankruptcy protection from this obligation. This is not stated upfront by the people who are selling these loans.’”

“‘We’re starting to see problems with our credit members,’ said Courtney Jensen, a legislative advocate with the California Credit Union League. ‘Super lien status isn’t explained correctly to them, or else they simply don’t understand the consequences involved.’”

“While California’s PACE program was drafted with the best intentions, like any new program, implementation has not been perfect,” Dababneh said in a statement. ‘Currently, there is no requirement for basic disclosures and homeowners are often misled to believe that the PACE program is a subsidized government program that carries no risk if they need to sell or refinance their home.’”

“The prospect of going green, coupled with a misleading sales pitch by contractors, is leading homeowners — many of them seniors — to getting scammed and becoming victims of predatory lending because they have no idea what financial product they are really buying,” he said.

November 14, 2016 The San Diego Reader “Solar-power financing could spell trouble: ‘I hate to see people lose their homes over something I was involved with’”

“The owner of a North County solar-power company says he sees the next housing bubble bursting on the horizon. While it’s the hand that feeds much of his business now, he says it’s the same trick that financial institutions used almost a decade ago, which caused our recent recession and housing-market crisis.”

“I know people that have received a whole kitchen and bathroom remodel in the name of water conservation,” said the business owner.”

“Homeowners with a little equity can get 100 percent financing with no money down, quick approvals, and no credit check. (I received a direct-mail piece offering me up to \$49,500 in home improvements.) The program provides HERO-approved contractors to perform the services.”

“Now, once again, people will find themselves with payments they can’t afford, this time with property taxes rather than last decade’s [home equity line of credit] stated income/signature second mortgages. When they can’t pay, they’ll start losing their homes.”

February 23, 2016 Comstock’s Business Insight for the Capital Region “A Growing Green Debt? As PACE takes off, realtors warn that unwary homeowners are complicating their finances”

“But not everyone with a PACE loan knows how it works. Last September, Erin Stumpf of Dunnigan Realtors met with a homeowner in Sacramento’s Tallac Village neighborhood. The owner wanted to sell, and she’d replaced her yard with artificial turf, taking out a \$7,000 PACE loan to do it. ‘Oh, but don’t worry,’ the homeowner told Stumpf. ‘The PACE loan will be transferred to the new owner.’ Stumpf had to explain that wasn’t true. The prospective buyer likely wouldn’t be able to get a mortgage because of the PACE loan — Fannie Mae and Freddie Mac, which guarantee 90 percent of the country’s home loans, won’t do so for properties with a PACE lien.”

“‘The way this was sold to my client and the way that it’s sold to the public in general is really

misleading,' Stumpf says."

"Some programs, however, may be covering up the potential risks in their descriptions of PACE. A video on the website of Ygrene Energy Fund, one of two private companies that offer PACE financing in Sacramento, gives this explanation: 'If you sell your property, the payments transfer to the new owners just like your property tax, so you only pay for what you use.' But that's only true if the new buyer agrees to take on the PACE payments and doesn't need a home loan."

"Ygrene does require PACE borrowers to sign a disclosure agreement later in the process. That document warns owners that they might have to pay off their PACE loan when they sell or refinance, according to an October 2014 report by the California Center for Sustainable Energy. Ygrene itself did not respond to requests for comment on how that disclosure document is discussed with customers."

September 27, 2016 The Sacramento Bee "Is rooftop solar worth it? Californians consider the questions as use, complaints rise"

Summary:

"Rooftop solar panels, as the men who came knocking described them, seemed to Faye Moore like a good deal. The solicitors who visited 75-year-old Moore's Pomona home told her they could help finance solar panels that would slash her energy bill. So she signed on. Her energy bills have indeed plummeted from the hundreds she was paying a month. But the thousands of additional dollars she'll owe annually in property taxes to pay off her new \$33,000 system far outstrips those savings. 'I think I've been had,' Moore said."

Quotes:

"But as clean energy programs have grown, so too have the consumer complaints. Some have reported their energy bills going up despite being led to believe the opposite would happen."

"Some customers faulted shady operators who took their money and then didn't finish projects. 'This is likely the result of the industry growing at such a rapid rate that some contractors now in the marketplace are unscrupulous,' said licensing board enforcement chief David Fogt. 'The vast majority of solar contractors are doing a good job, but there's a small percentage taking advantage of consumers.'"

"Other complaints lodged with the state . . . came from customers, often vexed by vague or complex contracts, who were upset that projects didn't yield the savings they said they'd been promised. Elderly consumers are especially vulnerable to exploitation, Fogt said. 'These consumers are complaining that the savings they were told they would receive by installing solar was not realized,' Fogt said."

"Detractors warn sales pitches can echo the type of irresponsible behavior that fueled the 2007 housing crash. 'You have contractors and sales representatives who are selling this product very, very aggressively,' said Irvine Realtor Lacy Robertson. 'It's predatory lending.'"

"And people who sign up for PACE are not always expecting higher tax obligations. 'The county has received a few complaints from people who are surprised when their tax bill has increased,' said Robert Davison, chief of Sacramento County's engineering division."

May 3, 2016 The Sacramento Bee "Solar panel loans have spun out of control"

"During the past several years, there has been a significant increase in the number of California homeowners using a new kind of financing to install solar panels, put in landscaping to save water, and make seismic strengthening improvements. However, a light needs to shine on this financing - known as property assessed clean energy financing, or PACE - because it ignores longstanding lending principles and fails to make important disclosures to borrowers."

"An increasing number of companies, acting as agents of the city or county, are aggressively and falsely marketing these loan repayments as assessments that stay with the property."

"Of equal concern is the insufficient review by public agencies or their agents before making a PACE loan. Potential borrowers are not evaluated for their ability to repay, and they are not adequately told of the impact the loan may have on their ability to resell or refinance their home. Also unclear is how many PACE loans can be made on one parcel. It's entirely possible that one home may have one for an energy efficiency improvement, a second for water efficiency and a third for seismic strengthening improvements. The potential stacking of these PACE loans complicates title and the rights of lenders."

BiggerPockets.com "Southern California Hero Program - Renovate America - Scam"

"The story begins with me locating a very beat up home while in the area with friends, looked like a perfect flip so I reached out to the owner. The contract was negotiated at the mortgage balance due to the comps and need for repairs in the area. We'd got our EMD in and were ready to close when title discovered a tax lien on the property. This lien originated in 2012 to the tune of \$2131 until 2033. The seller was oblivious to this lien and stated the windows were done for free through an energy upgrade program sponsored by the WRCOG (Western Riverside Council of Governments). They had stated they would increase the value of the house which would raise its taxes and that would pay for the upgrade. Total cost for the windows was \$14,000 but once financed over 30 years it would come out to just under \$40,000 at 9.51% APR."

"I'm amazed a program like this can be sponsored by local governments, council members and mayors sit on the board for the WRCOG and seem to be blind to the deceptive methods used to get these projects sold by local contractors and Renovate America. So you've got a local program in Southern California that sells highly marked up energy efficient repairs without ensuring contractors complete the work or performing an appraisal to ensure they aren't putting the owner underwater. They don't have to as there is zero risk due to the first position of the lien. Talk about a brilliant but predatory business model...."

July 19, 2016 California Association of Realtors "C.A.R. Statement on HUD Insuring FHA Mortgages with PACE Loans"

"LOS ANGELES (July 19, 2016) - The CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) today issued the following statement in response to the U.S. Department of Housing and Urban Development's new policy that the Federal Housing Administration (FHA) will begin insuring mortgages on certain properties with Property Assessed Clean Energy (PACE) loans."

"Although C.A.R. supports voluntary consumer-friendly energy improvement programs for homeowners, C.A.R. believes that HUD was ill advised to approve placing PACE loans in a senior position to FHA first mortgages," said C.A.R. President Pat "Ziggy" Zicarelli. 'Doing so places FHA homebuyers and taxpayers at risk and does homeowners a disservice by approving a loan product without consumer protections and which is aggressively sold to homeowners who rely on FHA financing for safe and affordable mortgages.'"

"C.A.R. feels that the FHA has failed to justify why it supports a program whose interest rates border on predatory and do not follow even basic lending guidelines for consumers."

"This loan product has no minimum disclosures, no underwriting of the borrower, no proof that the borrower has the ability to repay, no three-day right to rescind, no marketing limitations, no interest rate or fee caps, no kickback prohibitions; nothing,' added Zicarelli.

'If the housing market of the last decade has taught us anything, it's that first-time homeowners, and low- and moderate-income homeowners are the most vulnerable and will be taken advantage of. Sadly, it is they who the FHA is inviting unregulated PACE lenders to target.'

March 28, 2015 Pedersen Real Estate "Some Big Problems with HERO PACE program - Homeowners Beware!"

"My wife and I took a listing a few months ago where the seller was selling his mother's home. She had passed away recently. He told us during the listing appointment that she may have had some home improvement work done to the home involving the HERO program."

"Part of the problem was that we could not document any demonstrative improvements that would justify a value increase to the home for the appraiser. According to the son, his mother had the house texture-coated a few years ago through the HERO program. The seller had to pay off the lien out of the proceeds of the sale in order for the sale to go through. But the purchase price did NOT reflect any improvements to the home that justified the HERO lien. This seller was lucky because he had enough equity to pay off the HERO lien but many sellers are finding that they do not have enough equity to pay off the lien and they believe that the buyer can assume the debt."

"In the past couple of months, the California Association of Realtors and local Realtor associations have been trying to educate Realtors about the program and its risks. What risk? For one, some Realtors and sellers have been sued for not disclosing the HERO liens. For one, some Realtors and sellers have been sued for not disclosing the HERO liens. This issue is also shutting down sales and refinances as most banks, in particular conventional loans, will not finance purchase loan or a refinance loan on houses that have HERO liens on them."

"Homeowners with HERO financing assume that these loans are assumable, but they're NOT. For the most part, banks won't lend on a property unless the HERO debt is settled prior to closing."

June 12, 2015 The Press Enterprise "MORENO VALLEY: Homebuyer files lawsuit over HERO-financed transaction"

"When Esther Kemmerer agreed to pay \$345,000 for a clear title on a house in Moreno Valley in April 2013, she claims she got more than a property with energy-efficient amenities. Kemmerer got embroiled in a civil lawsuit accusing the seller and others who handled the all-cash sale of failing to disclose and pay off a \$28,675 property tax assessment for HERO-financed windows and doors that could grow to \$59,431 over 20 years."

"Barbara Spoonhour, the WRCOG (Western Riverside Council of Governments) administrator of the HERO program, said the HERO assessment is supposed to show up when a title search is done. However, Herrera (government affairs director for Inland Valleys, California Desert and Inland Gateway associations of Realtors) said it showed up in a place no one expected, so underlying documents had to be requested to get a true picture of what was going on. 'It got missed by veterans, agents, brokers, lenders - folks in escrow,' he said. 'It's also appearing on a tax bill, and not everyone was generating every portion of the tax bill for these reports.'"

Oct. 5, 2015 The National Real Estate Post "Run From PACE Loans... Run"

"Based on what's going on with these PACE loans all we can say is 'run forrest... run.'"

Transcript of relevant sections of the video:

Brian: "Disguised this as making your house green, which everybody likes. We get the States on board with PACE, because, well, everyone likes green. We call it a tax bill, we charge an over eight percent rate over twenty years, we make it assumable, we supercede the existing first, and sell a bunch of stuff that probably won't last or won't be up to par for the twenty years of the loan, and then we make a bunch of money?"

Frank: "That's right Brian, and don't forget, unregulated, the more we charge the more we make, and the more I sell, the better the profits."

July 17, 2015 The Sacramento Bee "Energy Improvement program can hobble home sales"

"Some homeowners have had to pay off their PACE loans before they can refinance. When Patti

Smith sought a refinance last year for her senior community home in San Diego County, she had to pay off a \$14,774 HERO loan she previously took out for an air-conditioning unit, tankless water heater and replacement ductwork. "I was flabbergasted when our mortgage company told us we had a lien," said Smith, 62. "The contractor who pushed the HERO program never mentioned the word 'lien.' If he would have we would have never done it." Smith said she also had to pay a penalty of \$1,734.14 to HERO for paying off the loan early. The HERO program has since waived the penalty fee for homeowners."

"One selling point of PACE loans has been that a home seller can transfer responsibility for paying off green improvements to the buyer when they move, since the assessment is collected through county property tax payments. But real estate agents warn that such transfers aren't as smooth as once envisioned."

April 9, 2016 Ventura County Star "Opinion: Mark Chacon: Energy-efficiency loans could cause homeowner headaches"

"A new government-sponsored program enables homeowners to reduce utility bills and help save the environment. It sounds great, but there are several things you should consider before signing up. Fortunately, alternative programs are available that pose less risk to homeowners." "Steve Lista found that out the hard way. He put his five-bedroom home in Riverside County on the market in June but couldn't find a buyer willing to take on the \$3,000-a-year assessment for his \$27,000 solar panel system."