



"WHERE THE CUSTOMER IS OUR FIRST PRIORITY"

FHA ANNOUNCES ANTICIPATED GUIDELINES FOR FHA FINANCING ON HOMES WITH EXISTING PACE LIENS

On August 24, 2015, the Federal Housing Administration (FHA) issued anticipated guidelines that will require Property Assessed Clean Energy (PACE) liens to be subordinate to FHA single-family first-mortgage financing.

PACE loans allow homeowners to build the costs for energy-efficiency upgrades, such as adding insulation and installing energy efficient windows or solar panels, into their property tax bills. PACE is available in 31 states. While there are many versions, PACE programs generally allow homeowners to finance energy efficiency improvements for up to 20 years through tax assessments attached to the property.

There was industry concern that in the event of a default, the PACE loan as a tax assessment may have super lien status and/or take precedence over the first-lien mortgage. The FHA said it is developing single-family PACE guidance to overcome impediments in the purchase and sale of properties to which PACE loans are attached due to these concerns.

The FHA's guidelines would sync with the Federal Housing Finance Agency's (FHFA) policy that prohibits Fannie Mae and Freddie Mac from buying mortgages or notes with PACE-type "super liens."



AT A MINIMUM, THE FHA'S GUIDELINES WILL INCLUDE THE FOLLOWING

- **LIEN POSITION:** Only PACE liens that preserve payment priority for first lien mortgages through subordination;
- **PACE PAYMENT, STRUCTURE AND TERM:** PACE financing must be a fixed-rate, fully amortizing loan;
- **ELIGIBLE PROPERTIES:** PACE assessments must be attached to single family properties, as defined by FHA, which are 1- to 4-unit dwellings, including detached, semi-detached and townhome properties;
- **EQUITY REQUIREMENT:** PACE liens that preserve payment priority for first lien mortgages will be eligible for financing that does not exceed FHA's maximum combined loan-to-value (CLTV) ratio;
- **RECORD KEEPING:** PACE liens must be formally recorded and be identifiable to a mortgage lender through a title search;
- **ADDITIONAL CONSUMER PROTECTIONS:** PACE programs must comply with applicable federal and state consumer laws and should include disclosures to and training for homeowners participating in the program.