

FHA to Cease Insuring Mortgages With PACE Assessments

On December 7, 2017, The Department of Housing and Urban Development (HUD) issued “Mortgagee Letter 2017-18” announced that it was reversing guidance issued in 2016 that the Federal Housing Administration would stop insuring mortgages on properties that include Property Assessed Clean Energy (PACE) assessments.

The new policy goes into effect in 30 days from the announcement date.

“FHA can no longer tolerate putting taxpayers at risk by allowing obligations like these to be placed ahead of the mortgage itself in the event of a default,” said HUD Secretary Ben Carson. “Assessments such as these are potentially dangerous for our Mutual Mortgage Insurance Fund and may have serious consequences on a consumer’s ability to repay, or when they attempt to refinance their mortgage or sell their home.”

The new guidance states that “FHA is concerned about the potential for increased losses to the Mutual Mortgage Insurance Fund due to the priority lien status given to such assessments in the case of default. FHA is also concerned with the lack of consumer protections associated with the origination of the PACE assessment, which are far less comprehensive than that of traditional mortgage financing products. FHA’s involvement with accepting properties with PACE assessments may indirectly help to overshadow potential consumer abuses.”

According to the notice, properties encumbered by PACE obligations will no longer be eligible for FHA-insured forward mortgages.

But the letter clarified that PACE obligations are considered existing debt and can be paid off using a rate-and-term refinance. HUD’s current policy that allows cash-out refinances to be used to pay off PACE obligation is staying in place.

HUD said that its existing prohibition of home-equity conversion mortgages on PACE-encumbered properties is unchanged.

“Clarification is provided to identify PACE obligations as Mandatory Obligations that must be paid off at closing, and may be paid off using HECM proceeds,” the letter stated.

What is PACE?

Property Assessed Clean Energy (PACE) is a financing mechanism that enables low-cost, long-term funding for energy efficiency, renewable energy and water conservation projects. PACE financing is repaid as an assessment on the property’s regular tax bill, and is processed the same way as other local public benefit assessments (sidewalks, sewers) have been for decades. Depending on local legislation, PACE can pay for new heating and cooling systems, lighting improvements, solar panels, water pumps, insulation, and more for almost any property – homes, commercial, industrial, non-profit, and agricultural.

Property owners across the US are using PACE because it saves them money and makes their buildings more valuable. PACE pays for 100% of a project’s costs and is repaid for up to 20 years with an assessment added to the property’s tax bill. PACE financing stays with the building upon sale and is easy to share with tenants.

PACE-enabling legislation is active in 33 states plus D.C., and PACE programs are now active (launched and operating) in 19 states plus D.C. **Residential PACE is currently offered in California, Florida, and Missouri.**

[Click here for the Mortgagee Letter 2017-18.](#)

Source: [ALTA.org](#)

