

## **Frequently Asked Questions (FAQ) about Home Energy Savings Loans and Property Assessed Clean Energy (PACE) in Maine**

Efficiency Maine administers programs to improve comfort and lower energy costs for energy consumers in Maine. This FAQ answers basic questions for municipal officials and civic leaders about the Home Energy Savings Loan fund and PACE in Maine.

### **What is the Home Energy Savings Loan Fund?**

In December 2009, [Efficiency Maine](#), at that time a division of the Maine Public Utilities Commission (PUC), submitted a grant proposal to the United States Department of Energy (US DOE) for federal stimulus funds (the American Recovery and Reinvestment Act or ARRA). Efficiency Maine proposed to establish a revolving loan fund to finance energy efficiency improvements to buildings in Maine.

In April, 2010, the US DOE announced that Efficiency Maine was among 25 winners nationwide, and that it would receive funding to establish a \$20 million revolving loan fund accessible to homeowners across the entire state. The Home Energy Savings Loan Fund will help Maine homeowners finance the costs of insulating, air sealing, and heating system upgrades in conjunction with the rebates offered under Efficiency Maine's Home Energy Savings Program (HESP).

### **What does the Loan Fund have to do with PACE?**

Also in April 2010, the Maine legislature enacted a law authorizing municipalities to adopt Property Assessed Clean Energy (PACE) programs and record PACE loans (described below) with the property in the registry of deeds. Because of this law, any municipality in Maine is now authorized to adopt an ordinance establishing a PACE program. [LD 1717 - An Act To Increase the Affordability of Clean Energy for Homeowners and Businesses](#).

Although municipalities now have authority to establish a PACE program and the resulting loans, this does not answer the question of where the capital will come from to fund and administer the loans. Efficiency Maine's Loan Fund, using the grant from the US DOE, provides this capital for the initial phase of loans.

## **What is the role of the Efficiency Maine Trust in PACE?**

On July 1, 2010, the functions and duties of Efficiency Maine, and for all energy efficiency programs in Maine, were transferred from the PUC to the Efficiency Maine Trust, an independent, not-for-profit, quasi-state agency. Created by [legislation](#) in June 2009, the Trust (still called “Efficiency Maine”) is governed by a stakeholder board of directors and tasked with implementing a three-year plan. The plan is approved by the board and the PUC, and is designed to save Maine consumers money through energy efficiency and renewable energy programs. Implementation of both the PACE law and the revolving loan grant is now the responsibility of the Trust.

## **What is a PACE loan?**

In Maine, a PACE loan is a loan taken by a property owner to finance the cost of making a qualified “energy savings improvement” to their property. What makes a PACE loan different from other loans is that it stays with the property receiving the improvement. If a homeowner sells his or her home before the loan is paid off, the loan can either be paid off at the time of sale or can be transferred with the property to become the responsibility of the new owner.

## **What is an Energy Savings Improvement**

An energy savings improvement is a measure to improve the energy efficiency or upgrade the heating system of a house. Common examples are insulation, air sealing (foam and caulk), efficient hot water heaters, and better controls and thermostats for furnaces and boilers. Efficiency Maine will provide more guidance on what energy savings improvements qualify for PACE loans in Maine, but for now promoters of the programs can look to the standards and criteria used in Efficiency Maine’s Home Energy Savings Program (HESP) and the PACE law LD 1717.

To be eligible for coverage by a PACE loan, Maine’s PACE law states that any energy savings or renewable measure must meet Efficiency Maine’s “cost effectiveness” test. Efficiency Maine’s definition of cost effectiveness is that total financial benefits of a project are greater than the total financial costs, over the useful lives of the individual measures installed on the project.

## **Why is a PACE loan program important?**

Maine’s PACE loan program helps homeowners by providing a loan to pay for cost-effective energy efficiency improvements.

Many homeowners could dramatically lower their energy bills through cost-effective energy efficiency improvements, but they lack the financial means necessary to pay the upfront cost of these improvements.

Maine's low-income customers can work their local CAP agencies to get financial assistance that will pay for 100% of a home weatherization project.

At the beginning of 2010, Efficiency Maine initiated the [Home Energy Savings Program](#) (HESP) for Mainer's of all income levels offering cash rebates for weatherization and efficiency measures that reduce energy use by 25% or more. Even with this generous program, a homeowner participating in the Efficiency Maine HESP program will still face out of pocket costs for whatever amount of the overall project costs the rebates and federal tax credits do not cover. Depending on the size of the project, this out of pocket cost can reach from just a few thousand dollars to \$15,000 or more. While a good deal in the long haul, it can be hard for homeowners to find the "up front" money. Financing, such as from Efficiency Maine's Home Energy Savings Loans, can provide this needed up front money. By using a PACE loan, homeowners can be assured that if they move before the loan is paid off, the loan can be passed to the next homeowner.

### **Why should my community adopt a PACE ordinance?**

Any municipality may elect to establish a PACE program, but there is no obligation to do so.

The new law in Maine states that a homeowner can only get a PACE loan for his or her property if the property is located in a municipality that has adopted a PACE ordinance. The homeowner may be able to get another kind of loan, but until the municipal government has adopted a PACE ordinance, residents in their town cannot get a PACE loan.

As described above, by adopting a PACE ordinance your community also makes it possible for Efficiency Maine to finance PACE loans through its Home Energy Savings Loans funds for the residents of your community. This will help residents in your town finance energy efficiency improvements to their homes today, while giving them assurance that they can transfer the loan if they move before it is paid off.

### **How does a municipality participate in a PACE program?**

First, a municipality must decide if it wants to enable its residents to put PACE loans on their property by recording a lien at the registry of deeds. To start this process, a municipality must adopt a PACE ordinance.

Second, the participating municipality should decide if it wants to raise its own funds to finance residents home energy savings loans, or if it wants to access Efficiency Maine's revolving loan fund for this purpose. If a participating town wants its residents to have access to the Efficiency Maine revolving loan fund, it should adopt a PACE ordinance that will make this possible. A Model PACE Ordinance to have access to the Efficiency Maine revolving loan fund can be found [here](#).

The municipality must also discuss with Efficiency Maine what administrative model it will employ and sign an Administrative Contract with Efficiency Maine to specify each parties' role in the program. A model PACE Administration Contract with Efficiency Maine, in which the municipality opts to delegate administrative responsibilities to the Trust, is being developed and will be available on the website soon.

Third, to help its residents access energy savings measures, a municipality should develop a public outreach and education plan to raise awareness about the benefits of home energy savings measures, available rebates, the loan program, and how customers can get started.

### **Who is eligible to benefit from a PACE loan?**

In a town that has established a PACE program, any residential property owner is eligible to benefit from a PACE loan so long as the property and its owner meet the following criteria established in Maine's PACE law (LD 1717):

- The homeowners have a debt-to-income ratio of not more than 50%
- Property taxes and sewer charges are current on the property
- The property is not subject to any outstanding or unsatisfied tax or sewer liens
- The property is not subject to a reverse mortgage
- The property is not subject to a mortgage or other lien on which there is a recorded notice of default, foreclosure, or delinquency that has not been cured
- The energy improvements being proposed for the project meet the Efficiency Maine standards for "cost effectiveness."

### **Who administers the PACE program?**

Across the state, Efficiency Maine will develop the necessary rules to implement the new PACE law, and will establish the revolving loan fund with the money received from the US DOE grant.

Efficiency Maine will also offer to service the loans for each participating town, and will assign this service to a third party provider, at no cost to the town.

The exact model for this service has not been finalized, but may include processing the loan applications, purchasing the loans from loan originators, collecting and tracking all of the loan payments, and handling defaults. Centralizing all of these tasks is intended to keep costs low. As noted above, the division of roles for administration of the PACE program is determined in the agreement between the municipality and the Efficiency Maine Trust. In an attempt to make this program very easy for municipalities, Maine's PACE law authorizes the municipality to delegate the administrative functions of a PACE program to the Trust.

Even under a model where most of the tasks are delegated to Efficiency Maine, however, the municipality's role remains very important. In most towns, at a minimum the municipality will need to participate in transferring the loan funds to the homeowner. The municipality may also help loan originators to determine if the property has outstanding taxes, charges or liens or delinquencies that have not been cured.

Another possible model is that the town may choose to administer much of the PACE loan program itself, processing the loan applications, collecting and tracking all loan payments, transferring payments to Efficiency Maine's revolving loan fund (as appropriate), and handling defaults.

### **Why does Efficiency Maine want to administer the program and be a party to the loan agreement?**

Efficiency Maine won the grant from the U.S. Department of Energy in part because it proposed a "revolving loan" program to keep the funding going for a full decade after the initial federal grant funds are exhausted. Repayment of PACE loans will generate a continuing revenue stream, so Efficiency Maine can replenish the loan fund at no cost to Maine taxpayers and keep interest rates low.

One option to leverage that revenue is to sell the pool of loans on the secondary market. Another option is for Efficiency Maine, working with other agencies, to issue revenue bonds at an attractive price. Issuing revenue bonds, at no cost to Maine taxpayers, will generate funds to keep the loan pool going for a decade so that more and more Maine homeowners can make energy efficiency improvements to increase their comfort and lower their energy bills. Whatever approach is used, the payments on the loans need to come back to Efficiency Maine or its authorized agents to make the fund sustainable and available for future loan participants.

Another reason for Efficiency Maine to administer the program is to make it as easy as possible for homeowners to access this financing. Because Efficiency Maine is authorized to make the rules for underwriting and disclosure, we are working to

establish a loan process that is fast and minimizes the hassle. By contracting with a centralized loan servicer as our authorized agent, Efficiency Maine can ensure that there is always someone on call who knows all the details of the program and can help homeowners through the process quickly and efficiently. For many municipalities in Maine, having this centralized service available will be the most affordable and efficient way to administer the program.

### **What liability falls to the municipality?**

Other than fulfillment of its obligations as set forth in its agreement with the Efficiency Maine Trust, a participating “municipality has no liability to a property owner for or related to energy savings improvements financed under a PACE program.” See *§10154 (2)(D) of the Enabling Legislation*. Additionally, the enabling legislation specifies that “municipal officers and municipal officials, including, without limitation, tax assessors and tax collectors, are not personally liable to the [Efficiency Maine] Trust or to any other person for claims, of whatever kind or nature, under or related to a PACE program....including, without limitation, claims for or related to uncollected PACE assessments.” See *§10154(2)(C)*.

### **Can businesses apply for a PACE loan?**

Although both the enabling state law and the model PACE ordinance do allow for businesses that own property to apply for a PACE loan, the Efficiency Maine Trust currently plans to administer the \$30 million in DOE funds via the Home Energy Savings Program that only applies to residential property. At this time, there will not be funding provided by the Efficiency Maine for a business PACE program. However, municipalities can provide that financing themselves. Additionally, Efficiency Maine currently offer low-interest rate loans of up to \$35,000 for small businesses. You can find more information on Efficiency Maine’s non-PACE energy efficiency loan program for small businesses [here](#).

### **What is the term (duration) of a PACE loan?**

The duration of the PACE loan can vary but it must be shorter than the expected useful life of the installed energy efficiency improvements. To maximize the attractiveness of the loans and the sustainability of the loan pool, Efficiency Maine wants to ensure that the annual payments on the loan are less than the annual avoided costs of purchasing energy. Efficiency Maine is considering offering two or three loan terms, at least one of which will be between 15 and 20 years long.

### **What is the interest rate associated with a PACE loan?**

The interest rate for new PACE loans has not yet been determined. We anticipate that PACE loans will be available in 2010 at interest rates between 5-7%. The interest rate for any particular PACE loan will be fixed as of the date of the agreement between the loan administrator and the property owner.

**What is the responsibility of the property owner who uses PACE funding to make energy efficiency improvements?**

A property owner will be obligated to use the PACE funding for its intended energy efficiency improvement purposes and to repay the loan for the shorter of either 1) the agreed upon term of the loan or 2) the period of time in which the owner continues to own the property (if the homeowner sells the property, then the new owner takes on the responsibility for loan repayment).

**What happens to a PACE loan upon a sale of the property?**

A PACE loan “runs with the property, not with the person.” Thus, for example, if a property owner has a 6 year period in which to repay a PACE loan and sells his/her property 3 years after making the energy efficiency improvements, the property owner will have made 3 years of repayments of the PACE loan and will have enjoyed 3 years of the energy savings realized. The new owner of the property will get the benefit of the energy savings going forward and will have the obligation of making the payments for the final 3 years of the PACE loan.

**Is it true that the PACE program in Maine is invalid or opposed by financial regulators?**

No.

You may have seen or heard press articles in June and July, 2010 about how the Federal Housing Finance Administration (FHFA), who regulates home mortgage holders Fannie Mae and Freddie Mac, opposed PACE programs. But these articles are about PACE programs in other states where they adopted a different approach than did Maine.

Outside of Maine, people commonly define a PACE agreement as a special assessment recorded on the property. Such assessments may be collected through the property tax system. The mortgage industry has complained that under this system, if the homeowner should default on his or her payments it could create a senior (or “first”, or “priority”) lien that would interfere with the industry’s ability to resolve the home mortgage or clear title to the property.

In passing LD 1717 to authorize PACE loans in Maine, the state legislature decided not to establish a PACE system that might interfere with the priority (seniority) of home

mortgages. Instead, a PACE assessment in Maine is secured by recording a “notice of a PACE agreement” in the registry of deeds, creating a PACE mortgage on the property.

In Maine, a PACE mortgage is not entitled to any special or senior priority. The PACE mortgage is junior and subordinate in priority to the first mortgage, regardless of the date that any of the mortgages were recorded.

**Who can I contact about establishing a PACE program in my community and related PACE information.**

Please contact [Dana Fischer](#) or [Peter Roehrig](#) at Efficiency Maine if you are interested in establishing a PACE program in your community or in playing some role related to a PACE program.