

March 17, 2015

To: Members of the Energy and Technology Committee

Fr: Connecticut Bankers Association

Contacts: Tom Mongellow, Fritz Conway

Re: **H.B. No. 6995 (RAISED) AN ACT CONCERNING A RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY PROGRAM (RPACE)**

Position: Oppose

This bill would create a lending program coordinated by the Connecticut Green Bank (formerly known as CEFIA), for residential energy improvements. While the CBA is supportive of the goals of the Green Bank to encourage energy efficiency throughout the State – particularly when in partnership with the private sector banks and providers - we believe the RPACE concept contained in H.B. 6995 is not the correct approach.

The bill creates an unnecessarily complicated system of financing that would be secured by a "municipal" super priority lien attached to a one to four family property.

The CBA has consistently opposed the concept of creating a super priority lien status for RPACE loans since the pace program concept was raised several years ago.

Below you will find a listing of the many ***compelling reasons as to why PACE program loans should not granted a superlien status.***

Since 2009, (around the time when PACE programs were first being discussed in CT), ***the Federal Housing Finance Agency and their related Government sponsored Entities, Fannie Mae, Freddie Mac and the Federal Home Loan Bank System have opposed the PACE concept.*** These agencies provide the main source of liquidity in the state and national mortgage market and allow capital to freely flow into Connecticut for the financing of home mortgages.

FHFA has identified many issues with the RPACE concept including: Impairment of the mortgage value, increased debt burden for a borrower in a depreciated mortgage market, potential loss of the home through a tax or foreclosure sale brought by the municipality, and the general ability of a municipality to properly manage the complicated RPACE program and its lien provisions.

We agree with the concerns raised by the FHFA and its related entities.

In addition, but not less important, are the following issues which reinforce our opposition to the superlien status for PACE loans.

Two New England States repealed the PACE superlien provision – Both New Hampshire and Vermont repealed their RPACE superlien provisions within two years after enacting it. States are not adding this provision - they are getting rid of it.

Lack of Uniformity – Will there be many different standards of underwriting, implementation of the programs and executions of the superliens - which towns and cities develop? With 169 towns across

the State, this could result in numerous PACE programs of differing standards and importantly, quality and implementation. There is not enough time or manpower for lenders to keep up with each program that may be developed.

Importantly, if a borrower has a high loan to value ratio of over 90%, the addition debt burden (super liened on the house) ***may put the borrower in a negative equity situation, which is the opposite of what the State and Federal homeowner assistance (HAMP or CHFA programs) programs are seeking to remedy.***

Valuation Uncertainty – Even if thousands of dollars of energy related improvements are added to a property, it does not relate to a ‘dollar to dollar” property value increase. Appraisers and home valuation experts struggle with how to value an energy improvement on a regular basis. By example, ***solar panels for an average house may cost 20 to 60 thousand dollars – but the worth of the house doesn’t increase by nearly that value, and yet there would be a superlien for that amount.***

We believe ***there are better and non-controversial ways to create energy lending programs for residential properties.*** We would look forward to working with the Green Bank, as we have in the past, to create an affordable, scalable and sustainable lending program that uses the States existing banking system and its significant lending capacity.

For all the above reasons we urge your opposition to H.B. 6995.