A Case for Lender Consent

Lender Consent is a best practice for commercial PACE projects.

PACE, or property assessed clean energy, is an effective financing mechanism that provides 100%, low-cost, long-term funding for property owners that want to implement energy efficiency and renewable energy projects. PACE financing is repaid with an assessment added to the property tax bill. Like property taxes and other assessments, current or past due PACE assessments have a senior claim to other property liens, including mortgages.

"Lender consent" means gaining the support of an existing mortgage lender for a PACE project, and is widely considered a best practice for commercial PACE projects. A lender's consent may be required by state PACE enabling statutes, and even if not, most PACE programs, project funders and building owners themselves require the support of an existing lender before proceeding with a PACE project.

Why would a mortgage lender allow a PACE assessment to be senior to its lien on a mortgaged property?

There are many reasons, and to date over 100 mortgage lenders have found that approving PACE funded projects makes sense.

- Relationships matter. Every PACE project involves a lender's customer who wants or needs to complete an energy related project, such as the installation of solar panels that will reduce or eliminate the cost of purchased electricity or the purchase of a more efficient heating and cooling system to replace one that is obsolete or failing. PACE funded projects make good business sense for the building owner, and therefore, the building's mortgage lender.

- Lenders already factor property taxes and assessments into their underwriting models. Some lenders begin their PACE analysis by seeing how the incremental PACE assessment would effect a lending decision. If adding the PACE assessment wouldn't cause the building to exceed established parameters for lending, there should be no reason to object to the use of PACE funding for a project that makes sense.

- PACE projects can increase the debt coverage ratio for mortgage lenders. Unlike other property tax based assessments, PACE projects directly reduce a building's operating costs. Coupled with long-term PACE funding, PACE projects can result in energy cost savings that exceed the amount of the annual PACE assessment, increasing cash flow and a corresponding increase in the debt coverage ratio.

- Because real estate value is based on net operating income, the increased cash flow from PACE projects actually increase a building's collateral value to the mortgage lender.

- PACE financings do not accelerate upon default. This means that only the current or past due portion of a PACE financing is ever senior to a mortgage lender's claim. The increase in property value resulting from PACE project savings will more than offset this fractional amount of the total project cost.

State and local governments have identified PACE as an important financing tool to incentivize property owners to adopt energy conservation measures. While mortgage lenders may find legitimate reasons to object to a proposed PACE project in certain cases, PACENow's surveys indicate that the majority of projects submitted to lenders are being approved. Standardization of review and approval procedures within lending institutions and the lending industry is expected to accelerate this trend.

PACE*Now* is a national, foundation-funded non-profit advocate for PACE. Our mission is to promote PACE financing by providing leadership and support for a growing universe of PACE market participants. For more information, or if you have any questions, please email: info@pacenow.org or visit www.pacenow.org.

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