What Senior Lenders Need to Know About TX-PACE Financing

How TX-PACE strengthens projects without disrupting senior loan protections

As commercial real estate financing evolves, senior lenders are increasingly encountering TX-PACE (Commercial Property Assessed Clean Energy) as part of the capital stack. Once viewed as unfamiliar or niche, TX-PACE financing is now a well-established, repeatable financing tool used across asset classes and markets nationwide.

For senior lenders, understanding how TX-PACE financing works, and why it is being used, has become essential.

What TX-PACE Financing Is (and What It's Not)

TX-PACE financing is long-term, fixed-rate financing for energy efficiency, water conservation, and resiliency improvements. It is secured by a voluntary property assessment and is enabled by state law and local government programs.

Importantly for lenders, TX-PACE:

- Is non-recourse to the borrower
- Is tied to specific, hard-cost improvements
- Amortizes over the useful life of those improvements
- Does not fund operating expenses or speculative uses

TX-PACE financing is not mezzanine debt, not unsecured financing, and not a revolving obligation. It is a purpose-built infrastructure financing tool.

Why Borrowers Are Using TX-PACE

Developers and owners use TX-PACE to improve project economics, not to increase risk.

TX-PACE is most commonly used to:

- Reduce equity requirements
- Fill capital stack gaps created by conservative loan sizing
- Finance long-life building systems at lower blended cost

By shifting eligible improvement costs into long-term TX-PACE financing, borrowers can strengthen balance sheets and preserve liquidity, often improving overall project stability.

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Lien Position and Senior Lender Protections

In Texas, TX-PACE is secured by a special assessment established in coordination with the local municipality and structured within the existing property tax framework, holding the same lien priority as other local government assessments. Repayment is made directly to the PACE lender, with the local tax office involved only in the event of a default. The program requires senior lender consent and is designed so that project savings and increased asset value support, rather than impair, the senior lender's collateral position.

In practice, senior lenders are protected through:

- Required written consent prior to closing
- Conservative loan-to-value and loan-to-cost limits
- Clear underwriting of combined leverage
- Use of TX-PACE exclusively for value-enhancing improvements

TX-PACE assessments are also non-accelerating, only the current assessment installment is due, not the full balance, in the event of default.

Alignment With Construction and Draw Controls

Modern TX-PACE structures increasingly align with senior construction lending practices.

For larger projects, TX-PACE can:

- Disburse proceeds in tranches tied to construction milestones
- Fund no earlier than pro-rata with senior debt
- Require verification of incurred costs and project balance

This coordination ensures that TX-PACE capital supports, not disrupts, construction oversight and completion risk management.

Impact on Cash Flow and Coverage

TX-PACE payments are typically structured to begin after construction completion or stabilization, often with capitalized interest during construction.

This results in:

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- No disruption to construction-period cash flow
- Predictable, long-term amortization
- Reduced refinancing pressure compared to shorter-term subordinate debt

In many cases, lower operating costs from TX-PACE-funded improvements further support debt service coverage.

TX-PACE and Asset Value

TX-PACE-financed improvements directly enhance collateral quality. Senior lenders benefit from:

- New or upgraded mechanical and building systems
- Reduced operating and utility expenses
- Extended asset life and improved resilience

Because TX-PACE is tied to physical improvements, it often strengthens, not weakens, the underlying real estate securing the senior loan.

A Growing Track Record

C-PACE is now active in the majority of U.S. states and is used by institutional developers, repeat borrowers, and national capital providers. Many senior lenders have already consented to multiple TX-PACE transactions across portfolios.

This growing track record reflects increased comfort with TX-PACE as a complementary financing tool, not a competing one.

The Bottom Line for Senior Lenders

Absolutely! Here's the **"Bottom Line for Senior Lenders"** section reformatted with your quote clearly separated and numbered, while keeping the bulleted style consistent:

When correctly utilized, TX-PACE:

- Improves project feasibility
- Reduces reliance on higher-risk capital
- Enhances collateral quality
- Aligns with modern construction controls

As Will Bachino, Market President – Austin at Happy State Bank (a division of Centennial Bank), explains:

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When properly structured, a transaction whose capital stack includes a PACE component means 2 things:

1. A second set of eyes has reviewed the transaction for feasibility, thereby increasing the likelihood for success
2. A senior lender has a dramatically improved loan-to-value over a transaction without PACE, which reduces credit risk and opens the door for more opportunities

For senior lenders, TX-PACE is best understood not as an exception, but as part of today's standard development finance toolkit. At Texas PACE Authority, we work closely with senior lenders to ensure transparency, alignment, and smooth execution, so TX-PACE strengthens deals without introducing uncertainty. Informed consent leads to better projects—and better outcomes for all parties.

About Texas PACE Authority (TPA)

Texas PACE Authority (TPA) is the nonprofit administrator for local TX-PACE programs across Texas. TPA helps commercial, industrial, and multifamily property owners access long-term, fixed-rate financing for energy, water, and resiliency upgrades that reduce costs, improve building performance, and strengthen communities. Working alongside cities, counties, lenders, and contractors, TPA has facilitated more than $1 billion dollars in new private investment statewide.

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