



OHIO MORTGAGE BANKERS ASSOCIATION

May 23, 2022

Chairman Hillyer, Vice Chairman Grendell, Ranking Member Galonski and members of the House Civil Justice Committee, my name is Dawn Carpenter, I am a Vice President, Mortgage and Banking, Peoples Bank and Secretary of the Ohio Mortgage Bankers Association (OMBA). Thank you for the opportunity to testify in support of House Bill 646, which would add important protections to consumers, the real estate finance industry, and the State, pertaining to R-PACE.

The PACE program, which stands for Property Assessed Clean Energy, is well intentioned and on the surface looks and sounds like a good fix to help a homeowner, and assist in the focus on climate change by making a residence more energy efficient. PACE has two focused areas – commercial or C-PACE and residential or R-PACE. OMBA recognizes C-PACE in Ohio appears to be working well and is here to only voice concerns for the program as it relates to the residential aspects.

Through PACE, local governments borrow money at low rates then make them available to low-income borrowers for energy-saving home improvements through an “administrator”. This “loan” is then paid back through assessments on the homeowner’s property taxes.

Currently, California, Florida, and Missouri have R-PACE programs, with efforts being made to have Ohio implement the program. HB 646 will allow us to take what has been gleaned from the programs in these other states and help Ohio avoid the pitfalls they have experienced. It is interesting to note that all three states have curtailed their R-PACE programs or are looking to exit them completely.

With little to no regulations surrounding who sells these programs and how, or who hires and oversees the contractor performing the work, the program leaves vulnerable homeowners open to manipulation and fraud – often leading to foreclosures on their homes.

PACE loans, which are in fact tax liens, are administered by private companies hired to handle logistics such as providing financing and “approving the loans.” These individuals often have little to no experience or licensing requirements such as a mortgage lender is required to have. Independent Mortgage Bankers are required to receive extensive education before they receive their license and take 8 hours of continuing education each year before they can renew those licenses. Even some banks and credit unions require their loan officers to take the continuing education, so they are constantly up to date on regulations and requirements for the loans they produce. OMBA facilitates this training to our members and others annually. Depositor lenders, such as banks and credit unions, are subjected to a myriad of regulatory oversight to ensure those we are lending money to are protected. However, the unlicensed companies administering PACE in turn have no such requirements or regulatory oversight and often hire private contractors to both install the upgrades and market the complex, risky financing



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behind it. In essence, the people with the responsibility of pitching the loan – that’s technically a tax lien – are contractors who have no training or license to do so.

Additionally, PACE loans do not require an independent party to assess if proposed energy upgrades, ranging from insulation, new windows or even solar panels, would actually offset their costs. These salesmen often prioritize speedy sign-ups over vetting potential borrowers for their ability to pay the lien. With the average PACE “loan” at \$25,000, it is not uncommon to see a homeowner’s mortgage payments balloon from \$1500 to \$3000 with the additional taxes this program can bring to bear after the installation of these supposed energy-saving improvements. There are also no guarantees these improvements can or will provide the energy efficiencies that were “sold” to the homeowner to offset the increase in the homeowner’s taxes and little to no recourse for the homeowner if they do not.

The program was designed to focus these “loans” to low-income individuals who are likely already struggling to pay their bills or they would have made some of these improvements themselves. It is therefore not a stretch of the imagination to understand why many end up in financial trouble, which could lead to foreclosure.

Accountability for the program is nothing more than a blame game. PACE administrators blame the contractors, the contractors blame the administrators, and sometimes the finger of blame gets pointed directly at the customers themselves, because they didn’t read the fine print or understand what they were signing. All because the person selling them this bag of goods doesn’t understand it themselves and has no training or regulatory oversight.

I am sure you will hear from the companies who are attempting to sell PACE here in Ohio this is just a problem of a few bad apple contractors and that they are always improving their processes. I would argue the flaws in this program itself leave it open to these issues. The housing crisis of 2008 forced needed changes to the mortgage industry; we have a chance to make changes to PACE now before we step into that quagmire again.

Even the Federal Housing Administration, Fannie Mae, Freddie Mac, and the Veterans Administration recognize how fraught with problems these loans are and they refuse to accept mortgages with PACE loans. This leads to problems when the homeowner goes to sell or refinance their property. The tax lien is in a first-place position for payback, despite having been sold in most cases years after the original mortgage on the home was put in place. This becomes a problem in the event of a sale, refinancing, or foreclosure, taking away any equity built up in the home because it must be paid off first. This possibly leaves the homeowner unable to purchase another property or to refinance to lower costs. Potential homebuyers are unable to secure the financing to purchase the home, if it were put on the market, because of the tax lien. And lenders are unable to sell the loan into the secondary market making them unable to secure a loan for a potential buyer in the first place.

All this is not to say that affordable clean energy isn’t something that we should be investing in – certainly it is. But putting the elderly and low-income individuals at risk of losing their



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homes because they were sold a bag of goods by individuals who are not even required to be trained or licensed is not the answer.

OMBA is not moving to stop R-PACE from helping homeowners in Ohio find ways to afford reasonable, and responsible energy-efficiencies for their homes to cut costs and help with the environment. We do believe the steps outlined in HB 646 contains the policy framework to protect homeowners, mortgage bankers, banks, credit unions and the State to make this program less fraught with potential potholes.

Thank you for the opportunity to testify in support of House Bill 646 and I am happy to answer any questions you may have.