January 11, 2019

Chair Das Williams, 1st District
Vice Chair Steve Lavagnino, 5th District
Gregg Hart, 2nd District
Joan Hartmann, 3rd District
Peter Adam, 4th District
Board of Supervisors, 4th Floor
105 East Anapamu Street
Santa Barbara, CA 93101

RE: Property Assessed Clean Energy Program (PACE)

Dear Chair Williams and Supervisors,

The Santa Barbara Association of REALTORS® (SBAOR) represents roughly 1,300 REALTORS® throughout the South Coast and our mission includes engaging in real estate related community issues affecting our members and/or their clients. We have many concerns regarding the Property Assessed Clean Energy (PACE) Program and the effect it could have on homeowners in the County of Santa Barbara.

SBAOR has been involved in the PACE discussion since its inception in 2008. SBAOR is not against energy efficiency. We understand the importance of energy efficiency which is why our organization was a stakeholder in creating the emPowerSBC program. Since its creation, emPowerSBC expanded to the tri-county area and was emPower Central Coast. This program was created due to the problems surrounding PACE. We embrace energy efficiency as is evident from our award-winning water conservation garden, the installation of solar, and numerous other energy efficiency upgrades on our building. We also provide REALTORS® along the coast the National Association of REALTORS® Green Designation which is designed for agents looking to learn about issues of energy efficiency and sustainability in real estate.

We have concerns regarding:

- Transactional problems
- Transferability/Subordination
- Cost
- Instability of PACE Providers

Transactional Problems

Homeowners can face three primary potential problems with PACE loans:

Automatic default – A homeowner with a mortgage that prohibits PACE loans will be in automatic default of their mortgage. This means the bank can require accelerated payment or the homeowner will face foreclosure.

Inability to refinance – If a homeowner with a PACE loan attempts to refinance the bank may refuse. Refinancing creates an entirely new loan, and if the bank does not allow for a PACE loan to take the primary position, then the bank may not refinance. Though there may be some banks that do refinance with PACE loans, by limiting which banks a homeowner can work with, it also limits the rates available.

Fannie Mae (FNMA) will allow PACE loans only under 3 terms: 1) the PACE loan was originated before 7/6/2010 and owned by FNMA, 2) an owner can prove outright that the PACE loan does ***not*** have first lien priority, or 3) the PACE loan is structured as a subordinate lien like a home equity line or a home equity loan. The majority of existing PACE loans do not meet these requirements. If these requirements aren't met, FNMA says outright it will not purchase/securitize loans with an outstanding PACE loan, which means mortgage lenders don't allow them either.

FHLMC is a little stricter in that they want the PACE loan to be paid off when refinancing. Because the PACE loan doesn't account for strict equity requirements like lenders do, a homeowner could potentially get themselves in trouble due to maxing out their equity which would prevent them from refinancing. If the improvements don't add value to the house, which as we all know if you put $50,000 into your house it never equates to a like-for-like increase in value of $50,000, a homeowner could get themselves in trouble with low equity. There'd be no way for them to refinance using FHLMC who requires the PACE loan to be paid.

Inability to sell – If the prospective buyer is pre-qualified from a bank that does not allow PACE loans, then the loan must be paid in full prior to the purchase. This eliminates the benefit of a loan that runs with the home. It also adds complications to the sale of the home. If the home is under water, or the seller has little money, this could be a distinct problem.

Transferability/Subordination

As noted within your staff report, the Federal Housing Finance Agency (Conservator of Fannie Mae and Freddie Mac) has not changed its opposition to backing conventional loans on homes with existing PACE assessments. At least for now, conventional lending is not likely to be available.

PACE financing creates a super priority lien except on FHA & VA loans. The problem in Santa Barbara is that there is a very small percentage, about 10-15%, of homes that qualify for FHA or VA loans. That means that the majority of lending in Santa Barbara is covered by conventional lending through FHFA. **FHFA does not allow PACE loans to be subordinate.** Even though some PACE providers have implemented a subordination option, this does not mean that lenders will accept the subordination and, as stated earlier, current FHFA policy does NOT allow subordination.

Cost

Another issue is the cost of these PACE loans. These loans usually have high interest rates with an additional initiation fee resulting in APRS often over 10%.

Adding real value to the property has been addressed by the Department of Energy (DOE). They are concerned with PACE programs and therefore created a "Best Practice Guidelines for Residential PACE Financing Programs". According to the DOE:

> The primary rationale for PACE programs is to pursue a legally-defined "public purpose", which generally includes environmental, health, and energy independence benefits.
>
> The financed package of energy improvements should be designed to pay for itself over the term of the assessment. This program attribute minimizes impacts on the participant's debt-to-income ratio,

increasing the participant's ability to repay PACE assessments and other debt, such as mortgage payments.[1]

Other options instead of PACE are the traditional Home Equity Line of Credit (HELOC) and refinancing. HELOC's can range between 4% - 5%, but please note that usually if a homeowner can't afford a HELOC, they cannot afford a PACE loan. Refinancing ones mortgage is also an excellent way to receive capital for improvements on the home. Fannie Mae has the HomeStyle Renovation mortgage. This enables a borrower to obtain a purchase transaction mortgage or a limited cash-out refinance mortgage and receive funds to cover the costs of repairs, remodeling, renovations, or energy improvements to the property. There are no required improvements or restrictions on the types of renovations allowed or a minimum dollar amount for the renovations. Renovations, however, must be permanently affixed to the real property and add value to the property.[2]

Instability of PACE Providers

In addition to all of the issues mentioned above, the PACE providers are very unstable. The investors in PACE are beginning to pull out their funding because they are concerned with the future of the industry. PACE companies are beginning to lay off workforce and one company had laid off about 17% of their workforce after the new regulation was implemented.

The customers of PACE, local counties and cities, are beginning to have the same concerns with the PACE program and therefore these local jurisdictions are thinking about repealing, in the process of repealing, or have repealed PACE:

[1] Best Practice Guidelines for Residential PACE Financing Programs http://energy.gov/sites/prod/files/2016/07/f33/best-practice-pace_0.pdf

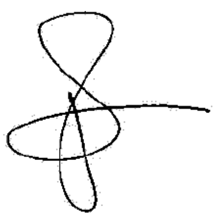
[2] B5-3.2-01: HomeStyle Renovation Mortgages (03/29/2016) https://www.fanniemae.com/content/guide/selling/b5/3.2/01.html

- Kern County
- City of Bakersfield
- City of Ridgecrest
- City of Tehachapi
- San Bernardino County
- City of Adelanto
- City of Apple Valley
- City of Barstow
- City of Chino
- City of Chino Hills
- City of Colton
- City of Fontana
- City of Grand Terrace
- City of Hesperia
- City of Highland
- City of Loma Linda
- City of Montclair
- City of Needles
- City of Ontario
- City of Rancho Cucamonga
- City of Redlands
- City of Rialto
- City of San Bernardino
- City of Twentynine Palms
- City of Upland
- City of Victorville
- City of Escondido
- San Joaquin County
- City of Escalon
- City of Lathrop
- City of Lodi
- City of Manteca
- City of Ripon
- City of Stockton
- City of Tracy
- Shasta County
- Stanislaus County
- City of Ceres
- City of Hughson
- City of Modesto
- City of Newman
- City of Oakdale
- City of Patterson
- City of Riverbank
- City of Turlock
- City of Waterford

Conclusion

With multiple lawsuits, critical media articles, and a host of other issues, is this really a program that should be introduced to Santa Barbara County homeowners? If the program were stable and was able to fulfill its promises, then we would support this program, but it does not. Since its inception, this program has created nothing but more questions and concerns about its real goal of helping homeowners with energy efficiency upgrades. While we applaud the theory behind PACE, we cannot support a program that has so many problems linked to it. We ask you to NOT allow PACE into our community.

Sincerely,



Thomas Schueltis
2019 President

Attached:

- The Wall Street Journal "America's Fastest-Growing Loan Category Has Eerie Echoes of Subprime Crisis"
- The Wall Street Journal "Renovate America, One of America's Fastest-Growing Lenders, Didn't Disclose It Made Payments to Some Borrowers"
- The Los Angeles Times "These Loans Were Created to Help Homeowners, but for Some They Did the Opposite"
- Alternatives to PACE
- Renovate America Financing and Disclosure

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(805) 963-3787 | (805) 966-9664 FAX | www.sbaor.com

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/americas-fastest-growing-loan-category-has-eerie-echoes-of-subprime-crisis-1484060984

MARKETS

America's Fastest-Growing Loan Category Has Eerie Echoes of Subprime Crisis

Lenders offering energy-conscious loans care little about borrowers' creditworthiness, contractors function as loan brokers—and investors can't get enough

Cindi Ventura helps her mother out of the San Jose, Calif., house where they live. They got a PACE loan for $16,732 after eroded sewer pipes caused a flood. *PHOTO: PRESTON GANNAWAY FOR THE WALL STREET JOURNAL*

By **KIRSTEN GRIND**
Updated Jan. 10, 2017 2:41 p.m. ET

Deanna White told a contractor she couldn't afford the $42,200 loan he recommended for improvements to her house in Inglewood, Calif. The contractor, she recalled, said she wouldn't be on the hook because the loan was part of a "government program." She applied and was approved.

Two years later, Ms. White is struggling to make payments on the loan, which was packaged with more than 10,000 similar loans into bonds and sold to investors. Under its terms, Ms. White's five-bedroom house could be foreclosed on if she defaults.

Her loan is part of a booming corner of the lending industry called Property Assessed Clean Energy, or PACE. Such loans, set up by local governments across the U.S., are designed to encourage homeowners to buy energy-efficient solar panels, window insulation and air-conditioning units.

About $3.4 billion has been lent so far for residential projects, and industry executives predict the total will double within the next year. That would likely rank PACE loans as the fastest-growing type of financing in the U.S.

As the loans spread, so do problems that echo the subprime mortgage crisis. Plumbers and repairmen essentially function as loan brokers but have scant training and oversight. They often pitch PACE loans to help land contracting jobs and earn referral fees from lenders, according to loan documents and more than two dozen borrowers, industry executives and employees.

Creditworthiness matters little to lenders, because loans are based on the value of a homeowner's property. PACE loans typically require no down payment, and the debt is added to property-tax bills as an assessment. Ms. White's annual property taxes soared to $6,500 from $1,215.

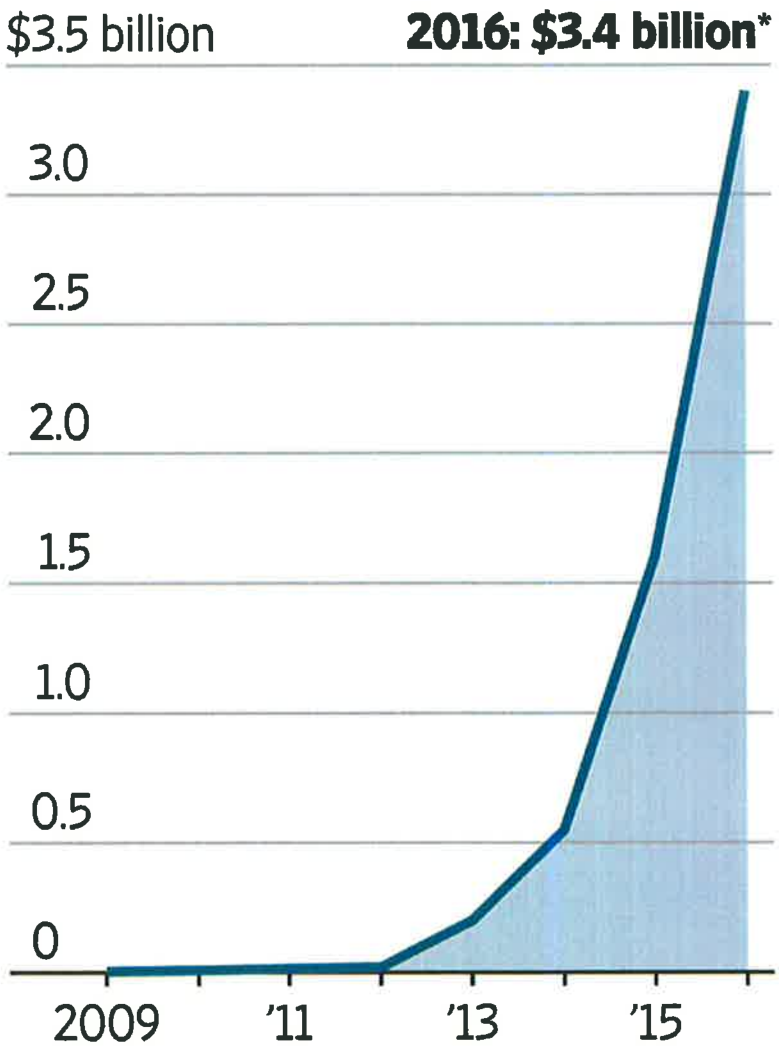
Loan growth is fueled partly by investor appetite for bonds created from PACE loans, especially among mutual funds and insurers. Investors like the bonds' relatively high payouts, environmentally friendly reputation and lofty credit ratings. On the other hand, rating firms have said there aren't enough historical data on PACE loans to forecast potential defaults.

Some local governments that embraced the loans as a way to bring clean energy to the masses didn't anticipate the messy consequences.

"We wanted to put ourselves in the thick of this," says Rick Bishop, executive director of the Western Riverside Council of Governments, a group of city and county governments in California that helps run the largest PACE program.

Home Improvement

Cumulative PACE financing for residential projects



*Through Dec. 20 Source: PACENation

THE WALL STREET JOURNAL.

"The downside is now we hear about these stories from people who feel like they've been misinformed in some fashion."

The government group tries to resolve problems for borrowers. Riverside County, Calif., has opened an investigation into marketing practices for PACE loans, and California Gov. Jerry Brown signed into law in September new requirements establishing uniform disclosures for PACE loans, an effort to make lending terms closer to those for mortgages. Homeowners who get a PACE loan now have three days to back out.

The largest PACE lender, Renovate America Inc., is accused in three lawsuits filed in November by borrowers of double-charging interest and administrative fees and failing to immediately credit loan payments. The suits seek class-action status. The company denies the allegations and says it will "defend PACE, our company and the program vigorously."

In November, the Energy Department urged administrators of the loan programs to clearly explain loan costs and other terms, allow borrowers to cancel their loan during a short period and deter kickbacks to contractors.

Industry executives say most borrowers are satisfied with their loans and defaults are rare.

Lenders are working with consumer groups to create nationwide standards "to prevent things that wouldn't benefit consumers," says JP McNeill, Renovate America's founder and chief executive.

The growing pains are largely the result of the industry's young age, the executives say. The first PACE program was started in 2007 by Cisco DeVries, then chief of staff to the mayor of Berkeley, Calif.

Cisco DeVries, center, at the Cities for Tomorrow conference in New York in July 2015, calls himself a 'capitalist hippie' and is chief executive of clean-energy company Renew Financial Group. *PHOTO: LARRY BUSACCA/GETTY IMAGES*

Thirty-four states and Washington, D.C., have passed legislation allowing the creation of PACE programs, according to PACENation, an industry trade group in Pleasantville, N.Y.

Mr. DeVries, who calls himself a "capitalist hippie" and now is chief executive of Renew Financial Group LLC, a clean-energy finance company in Oakland, Calif., says he is "really proud of what we've accomplished." He adds: "We set out to help people save money and save energy, and it's under way."

The industry could get a new growth spurt from a July decision by the Department of Housing and Urban Development to allow the Federal Housing Administration to purchase mortgages on homes with PACE loans.

PACE loans range in size from about $5,000 to more than $100,000, with an average of about $25,000, and charge interest rates of 6% to 9% over a repayment period of usually five to 25 years.

Instead of making monthly mortgage payments, PACE borrowers pay what they owe once or twice a year along with their property taxes. Cities and counties collect the loan payments and pass along the money to lenders.

Local governments collect fees from finance companies. In the fiscal year that ended June 30, the Western Riverside Council of Governments collected revenue of $7.1 million, or about 15% of its budget, from the PACE program.

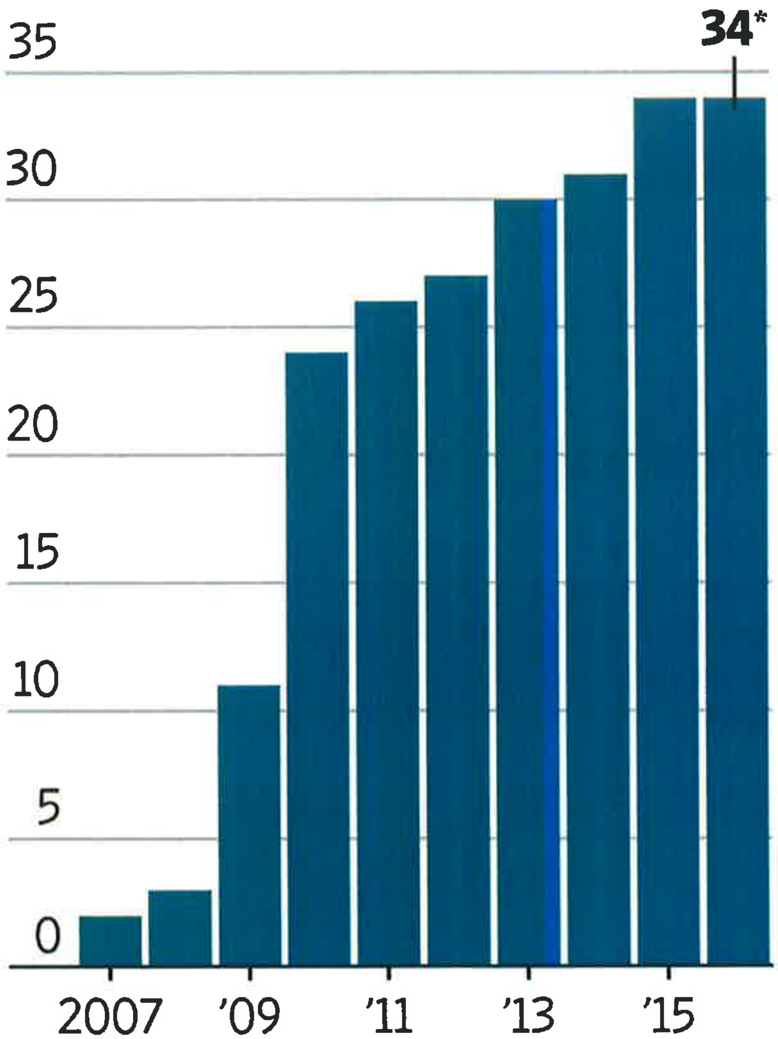
Another quirk of PACE loans is that the debt usually goes to the front of the line, ahead of the homeowner's mortgage. Like a typical tax assessment, that means if a homeowner defaults on the PACE loan, the property can be seized as collateral and sold to repay the lender.

That setup puts local governments in the awkward position of potentially foreclosing on their constituents. If that happens and the house turns out to be worth less than the amount owed by the homeowner, other taxpayers could be stuck with a loss on the difference. So far, that hasn't happened.

Some investors say the extensive involvement in PACE loans by governments across the country amounts to an implicit financial backstop. The belief that governments stand behind the loans is a major reason why investors are attracted to the bond deals, according to investors.

Across the U.S.

Number of states with PACE legislation



*As of Dec. 20 Source: PACENation

THE WALL STREET JOURNAL.

"There is such big national and state backing," says Mike Warmuth, portfolio management vice president at FBL Financial Group Inc., the owner of Farm Bureau Life Insurance Co. in West Des Moines, Iowa. The insurer owned $22 million of PACE bonds at the end of September.

Mr. Warmuth says the insurer's broker suggested the bonds, which generally yield about 4%. He says he isn't aware of any underwriting deficiencies with the loans, adding that Farm Bureau only had access to aggregate loan data before buying the bonds.

Defaults on loans in PACE bond deals overall have been less than 1%, according to Kroll Bond Rating Agency Inc. Cecil Smart, a senior director at the ratings firm, says the bond deals are structured so that lenders bear the brunt of any losses, rather than investors.

Germany's Deutsche Bank AG is one of the largest packagers of PACE loans into securities and led a $284 million deal in mid-December, which drew far more investor demand than expected. The bank is aware of problems stemming from the role of contractors, says a person familiar with the matter.

Contractors often line up loans while on house calls and can earn a referral fee of at least $500 per borrower, according to current and former employees. The loans also are marketed at county fairs and by cold calling, borrowers say.

Renovate America uses about 8,000 contractors to help line up loans, according to bond documents. Those contractors are overseen by 23 employees at the San Diego company.

The company says it recently put in place a more-stringent contractor management program. Renovate America says only about 200 contractors are actively arranging PACE loans.

Cindi Ventura, 65 years old, says she was urged last summer by her plumber to apply for a PACE loan after sewer pipes eroded underneath her three-bedroom house in San Jose, flooding the property. She said she had recently filed for personal bankruptcy, didn't have the money to make all the repairs and couldn't qualify for a home-equity line of credit.

She and her mother, 83, received a $16,732 loan for five years from Ygrene Energy Fund Inc. with a 6.5% interest rate. Ygrene ("energy" spelled backward), based in Santa Rosa, Calif., is the second-largest provider of PACE financing in the country, based on loan volume.

Ms. Ventura, a receptionist, says she was confused about the loan's terms because it was called an assessment. She says she called and emailed Ygrene several times with questions about her loan documents and never heard back. "I still don't really understand what the program is," she says.

Louis Lalonde, chief marketing officer of Ygrene, says company representatives had a call with Ms. Ventura and her mother to answer all their questions before the loan was signed. He says he has no record of any further attempts to contact them.

The 3,200 contractors who drum up business for Ygrene are regularly screened for compliance with contractor licensing requirements and receive training before they are allowed to pitch loans to homeowners, he adds.

Cindi Ventura helps her mother sort old family photographs. She says she was confused about terms of their PACE loan because it was called an assessment. *PHOTO: PRESTON GANNAWAY FOR THE WALL STREET JOURNAL*

Malcolm Scott, 61, was planning to pay in cash the $34,000 it would cost for a new air-conditioning unit, furnace and other improvements at his house in Woodland Hills, Calif. His contractor suggested applying for a PACE loan.

Mr. Scott was surprised to find out less than 24 hours later that he had been approved for $94,000. Renovate America says he qualified for the larger loan based on the amount of equity in his house. He decided to borrow just the $34,000.

Michael Gardner, who runs Mediterranean Heating & Air Conditioning, which lined up the loan, says he has been recommending loans for about two years and got "an hour or two" of online training from Renovate America.

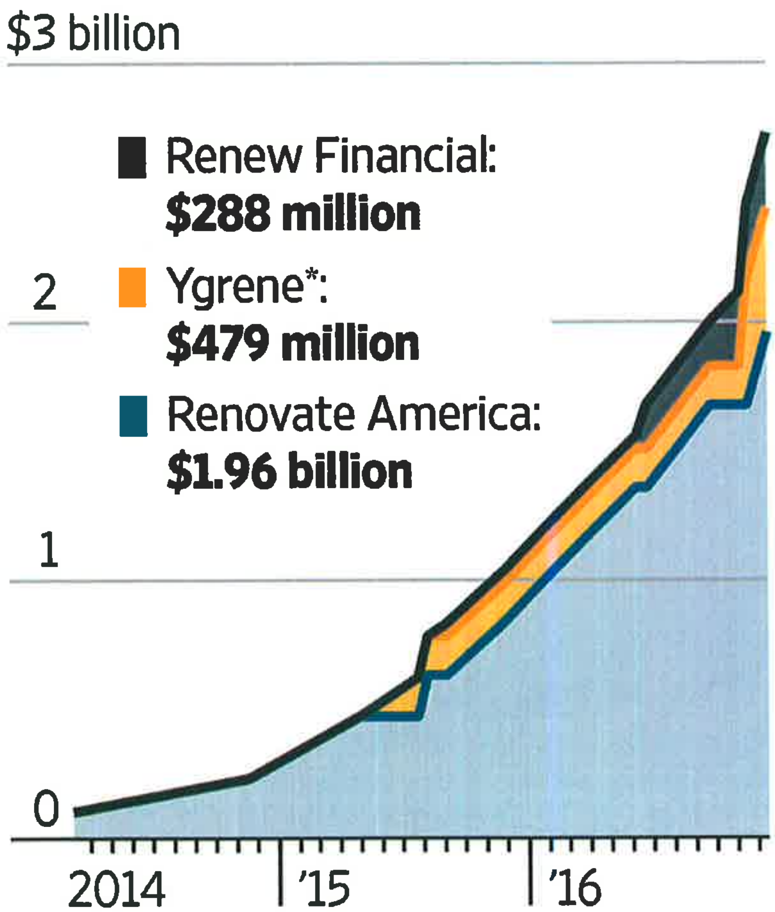
The program "is real nice because there are no FICO score requirements or anything like that," says Mr. Gardner.

Some lenders have taken steps to strengthen underwriting practices, make loan documents more transparent and boost contractor oversight. Renovate America

Hungry Investors

The growth of PACE loans has been fueled partly by investor appetite for bonds created from the loans.

Cumulative securitization of residential PACE loans* by dollars funded



Note: Through Dec. 15
*Ygrene includes some commercial loans.
Source: PACENation
THE WALL STREET JOURNAL.

now requires in-house representatives to speak with a borrower by phone—outside of the room and away from the contractor—before signing a homeowner up for a PACE loan.

Renovate America, which is backed by nine private-equity and venture-capital firms, says it has spent the last several months working with consumer groups and regulators to come up with national lending standards for PACE. The new standards could include a year with no payments for borrowers who are suffering from an economic hardship.

"At the end of the day, PACE is an unregulated industry, and it's just a matter of time before we get regulated," says Mr. Lalonde of Ygrene.

Phil Adleson, a lawyer in San Jose, Calif., who represents borrowers, says PACE is "a very great idea implemented in a dangerous fashion."

Ms. White, the borrower in Inglewood, a neighborhood in Los Angeles County, says a contractor from a company named the House Next Door told her in late 2014 not to worry that she couldn't afford the $42,200 loan because "it wouldn't be coming out of my pocket."

The company says no one there would ever describe PACE loans like that and says Renovate America has held weekly training sessions for its contractors for "more than a year."

Ms. White says the contractor finished the drought-resistant landscaping at her house only after being contacted by a Journal reporter. Renovate America says the contractor has been "under suspension" for the past several weeks.

Her loan went into a pool of 11,282 PACE loans that are collateral on bonds issued by the Western Riverside Council of Governments. Deutsche Bank packaged the bonds into a $240 million deal called "HERO Funding Trust 2015-1." Kroll gave it a AA rating, the firm's third-highest.

According to the latest available figures, fewer than 70 of the underlying PACE loans have defaulted, and Kroll said the transaction "has performed as projected."

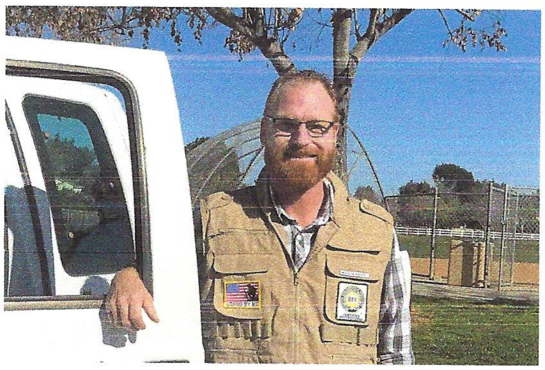
Ms. White's next loan payment is due in April. She says she doesn't know how she will be able to pay it.

Write to Kirsten Grind at kirsten.grind@wsj.com

MARKETS

Renovate America, One of America's Fastest-Growing Lenders, Didn't Disclose It Made Payments to Some Borrowers

The company's corporate culture favored loan production over homeowner protection, former compliance employees say



Ron Wallis, a former compliance employee at Renovate America, was one of several employees who say they complained to executives about a sales-focused culture at the San Diego company. *PHOTO: RON WALLIS*

By **KIRSTEN GRIND**
March 8, 2017 5:30 a.m. ET

Renovate America Inc. is the biggest player in America's fastest-growing type of loan. The San Diego-based company enjoys the backing of municipalities and big-name Wall Street investors, thanks in part to its record of ultralow customer defaults.

But Renovate America, which finances purchases of solar panels and energy-efficient appliances, has masked problems with some borrowers by paying off their debts if they struggle to keep up with payments, according to former Renovate America employees.

Renovate America hasn't disclosed that fact to investors who buy bonds backed by the company's loans, say three former employees in the company's compliance department.

The company's investors include mutual funds run by J.P. Morgan Chase & Co. and DoubleLine Capital LP, which have been told customer default rates are less than 1%, according to fund documents and credit-rating firms. A J.P. Morgan spokeswoman declined to comment, and a DoubleLine spokesman didn't respond to a request for comment.

JP McNeill, Renovate America's chief executive, said the company made a small number of payments between 2014 and 2016 on behalf of 83 borrowers. He said the payments weren't disclosed to investors because the number of recipients was a fraction of a percent of the 90,000 homeowners who got loans from Renovate America and wasn't considered "material."

Executives at two asset managers that bought Renovate America's bonds said their firms would have liked to know about the payments before investing. The payments make it harder for investors to gauge the true default rates of the loans.

Lending Boom

A snapshot of Renovate America's fast-growing business in its largest local-government partnership, located in Southern California.

Tax year	Number of properties in program	Value of loans in program	Number of delinquent properties	Value of delinquent loans	Delinquency rate
2012-13	110	$242,572	0	0	0
2013-14	3,178	$6.8 million	8	$12,748	0.26%
2014-15	9,125	$22 million	44	$97,688	1.52%
2015-16	21,811	$65 million	110	$282,712	0.43%

Source: Western Riverside Council of Governments THE WALL STREET JOURNAL.

Securities laws require companies to disclose all information that investors would consider to be material, said Erik Gerding, a professor at the University of Colorado law school. In Renovate America's case, "the conservative approach would have been to disclose," he said.

Renovate America makes its loans through state-run programs known as Property Assessed Clean Energy, or PACE. The high-interest-rate loans are brokered by plumbers and contractors, financed by private lending companies, backed by county governments and purchased by investors.

Loans, averaging about $25,000, are placed on a homeowner's tax bill as an assessment that needs to be paid along with property taxes. In a default, the loans are given priority over a homeowner's mortgage.

PACE lenders have made about $3.4 billion in loans since 2008. Industry participants expect more than $2 billion in loans to be made this year as more states sign on.

Wall Street's appetite for PACE bond deals is fueling growth. Investors are attracted to the bonds' roughly 4% return despite maturities that can stretch more than two decades. A key selling point is the perceived safety of the loans backing the bonds, even though credit-rating firms say there is little historical default data.

The Wall Street Journal reported in January that some borrowers in the PACE program said they were misled about their loan terms and can't afford their debt. Renovate America and other PACE lenders told the Journal they are putting more rules in place to protect homeowners.

PACE lenders rely on partnerships with state and local governments. The municipalities, eager to offer clean-energy savings to their constituents, are responsible for collecting homeowners' tax payments.

Renovate America was co-founded in 2008 by Mr. McNeill. It is backed by venture-capital firm DFJ Growth and private-equity firm Silver Lake Kraftwerk, among others. Renovate America has raised about $175 million in three financing rounds. The most recent, in 2015, valued it at about $500 million. The company's lenders, including Bank of America Corp. and Credit Suisse Group AG, are helping finance a nationwide expansion.

A spokeswoman for DFJ didn't return a request for comment, and a spokesman for Silver Lake Kraftwerk declined to comment. Bank of America and Credit Suisse representatives declined to comment.

Last year, Renovate America originated about $1 billion in loans, up 35% from 2015, the company said. It uses about 8,000 contractors to source loans across the country.

In late 2014, as some borrowers started missing payments, Renovate America launched a program dubbed "first payment assistance," according to the former compliance employees. The program paid a homeowner's first tax assessment or even a full year of debt, the former employees said.

Dissatisfied Customers

< > 1 of 3

Lenders in the Property Assessed Clean Energy Program, or PACE, make high-interest-rate loans on solar panels and energy-efficient appliances. Some borrowers say they were misled about the terms of the loans, which are placed as a tax assessment on the homeowner's property bill. Others say work done by contractors used by lenders to broker loans was subpar.

DANA LEONARD

Solar Panels

$54,000

Robert Cox, 59 years old, says he was sold $54,000 of solar panels by salespeople with Renovate America on a house in Bakersfield, Calif., that was badly in need of other repairs. He says he didn't realize his loan was a tax assessment until a few weeks ago when his real-estate agent told him. Mr. Cox, who works in the oil industry, is now trying to sell the house in a short sale because his mortgage is more than the house is worth. "I thought I was going to save a lot on my energy bill," says Mr. Cox, who says he has realized no energy savings. A Renovate America spokeswoman says Mr. Cox confirmed the terms of his loan with the company in January 2016, including an annual payment of $6,327, and signed a document saying the project was done to his satisfaction.

The ad hoc program lacked formal guidelines. Borrowers were more likely to receive aid if they threatened to go to the media with their complaints, one former employee said.

A Renovate America spokeswoman said that payments weren't made in a "programmatic or formal way" and that homeowners who received payments had misunderstood their loan terms or hadn't saved enough to pay off their tax assessments.

Mr. McNeill, the CEO, said the payments made on behalf of the 83 homeowners totaled $175,000 between 2014 and 2016.

The former compliance employees said they believe the sum is higher. One who worked with people responsible for the payments estimates the company paid out about $1 million to homeowners in a seven-month period beginning in fall 2015. The Renovate America spokeswoman disputed that number.

Renovate America stopped the payments late last year at the suggestion of its capital-markets division, which manages the company's bond deals, the spokeswoman said.

The former compliance employees said Renovate America made the payments to deal with problems stemming from a corporate culture that favored loan production over homeowner protection.

Mr. McNeill said the company's culture is focused on helping homeowners.

"We need to close as many projects as possible because that makes the investors happy," a former compliance officer said she was told by Mike Anderson, the firm's senior director of compliance operations. Mr. Anderson said through a spokeswoman that he doesn't recall the conversation.

Renovate America encouraged sales staff to tell borrowers that the loans would generate tax rebates that would essentially cancel out the loans' costs, according to former executives and homeowners. Some homeowners said the savings didn't materialize.

Mr. McNeill said that tax benefits are a relevant data point for homeowners, who "are happier if they're informed of benefits that exist."

Contractors who receive customer complaints about the quality of their work typically weren't penalized if they brought in a high volume of business, former employees said.

"We're not here to put contractors out of business," Renovate America's chief legal officer, Scott McKinlay, told a group of employees last fall, according to an attendee.

Mr. McKinlay said in an interview that his comments were meant to encourage employees to "find ways to improve ourselves."

Ron Wallis, a former compliance manager, said he told Mr. McNeill about what he described as predatory lending to senior citizens who didn't understand loan terms. Roughly 25% of Renovate America's loans go to elderly borrowers, former employees said. The Renovate America spokeswoman confirmed the figure, saying the percentage is less than the percentage of homeowners who are 65 and older in California, the company's largest market.

Mr. Wallis—who said he was fired in September for unauthorized vacation use—said Renovate never took action in response to his claims.

Mr. McNeill said that elderly borrowers go through additional vetting before receiving loans. "We absolutely, unequivocally do not advocate targeting any protected class," he said.

Write to Kirsten Grind at kirsten.grind@wsj.com

Dissatisfied Customers

Lenders in the Property Assessed Clean Energy Program, or PACE, make high-interest-rate loans on solar panels and energy-efficient appliances. Some borrowers say they were misled about the terms of the loans, which are placed as a tax assessment on the homeowner's property bill. Others say work done by contractors used by lenders to broker loans was subpar.

Energy-Efficient Windows
$25,000

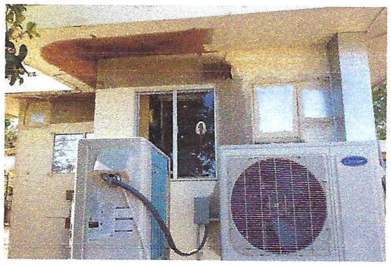

ANDREW PETERSON

Andrew Peterson, a 40-year-old vice principal who lives in Visalia, Calif., says he was sold energy-efficient windows through a contractor with Renovate America, which promised the loan would "pay for itself" through tax rebates. Instead, Mr. Peterson realized, after signing Renovate America's contract, that he would be on the hook for the entire $25,000 loan, an amount that was $15,000 higher than a competing window bid. He said he complained to a Renovate America customer representative in January that the sales process was unethical, an assertion that was disputed by the representative. "It's not right what they're doing," Peterson says. A spokeswoman for Renovate America says Mr. Peterson had three days to cancel the contract with his contractor—and several more days to choose other financing—and decided to move forward anyway.

Dissatisfied Customers

Lenders in the Property Assessed Clean Energy Program, or PACE, make high-interest-rate loans on solar panels and energy-efficient appliances. Some borrowers say they were misled about the terms of the loans, which are placed as a tax assessment on the homeowner's property bill. Others say work done by contractors used by lenders to broker loans was subpar.

Air-Conditioning Unit and Leaky Roof
$54,000



BEBE KLINGE

Bebe Klinge, a 65-year-old widow in Cathedral City, Calif., took out four PACE loans through Ygrene Energy Fund Inc. totaling $54,000 about a year-and-a-half ago, according to Ms. Klinge and the company. Ygrene is the third-largest company in the PACE program. Contractor work, including an air-conditioning unit that doesn't work and a leaky roof, still hasn't been fixed, she says. Painting hasn't been completed inside or outside. She says she complained repeatedly to Ygrene and was told the company couldn't force her contractor to complete the work. "Ygrene has just walked away," she says. Rocco Fabiano, chief executive of Ygrene, says that some of Ms. Klinge's contractor problems are due to side work that wasn't financed through a PACE loan and that she approved the work that was done through Ygrene. "Our commitment to our customers and consumer protection is at the foundation of our company," he says. "We're very sorry she had a bad experience."

BUSINESS

These loans were created to help homeowners, but for some they did the opposite

Ossie Hill, 86, right, cries over the possibility of foreclosure of her Los Angeles home as her daughter Cassina Edwards, 59, looks on. Hill is facing annual payments of $5,500 for a roughly $50,000 loan through the PACE program. (Genaro Molina / Los Angeles Times)

**Andrew KhouriContact Reporter**

June 4, 2017, 5:00am

After nearly half a century at the house on South Sierra Bonita Avenue in Los Angeles, Ossie Hill wanted to spruce up the two-bedroom home she and her late husband purchased in the early 1970s.

But the 86-year-old didn't have the money.

Then her daughter, Cassina Edwards, had an idea, recalling radio ads for a local home-improvement contractor: "We can help you. Low income. No credit check. Government program. Give us a call."

So Edwards did.

Now her mother, who receives $11,600 a year from Social Security and suffers from dementia, is struggling with a roughly $50,000 loan paid through a $5,500 annual tax assessment — an increasingly popular form of home-improvement financing known as PACE.

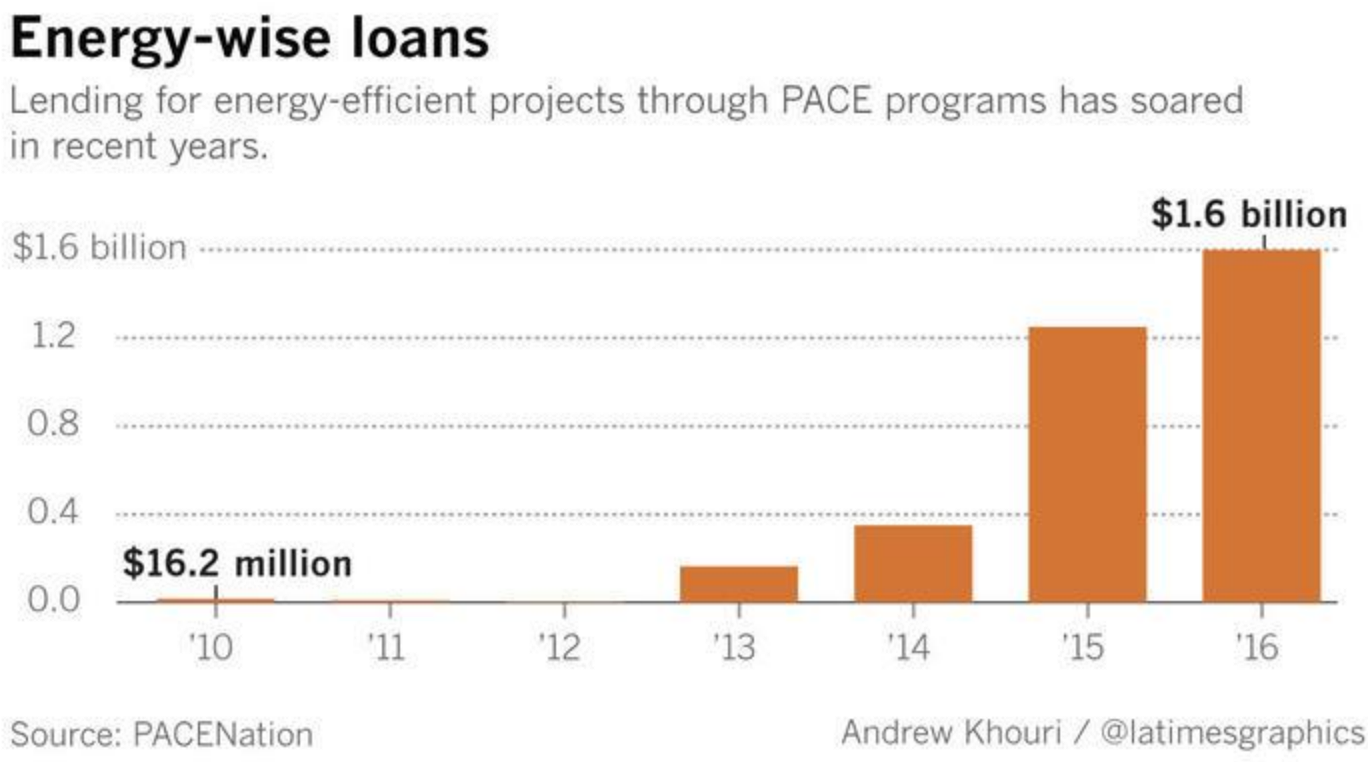
Edwards said the contractor explained that “a government program” would help the octogenarian afford the improvements, but never explained how the payments would work or warned them Hill could lose her house if payments were missed.

The first $5,500 bill last year came as a surprise, said Edwards, who helps manage her mother’s finances. With her mother unable to afford it, it has gone unpaid.

“I want my mother to keep her home. This is all she has,” Edwards said on a recent afternoon, as Hill sat next to her, eyes closed, head rested on her cane. “It’s pretty sad that they prey on people for your lack of knowledge. If you came in and were truthful about it, this would have never happened.”

Consumer groups, regulators and lawmakers are increasingly raising concerns about Property Assessed Clean Energy loan programs, which are authorized by governments but largely administered and funded by private lenders. In particular, the focus is on independent solar, plumbing and roofing contractors who pitch the loans and sign up consumers through online software — a system that’s drawn scrutiny but helped the industry grow aggressively.

The total amount lent for residential PACE projects topped $1.5 billion in 2016, up from $350 million just two years earlier, according to trade group PACENation.



The loan programs are meant to serve a public good — allowing more people to finance solar and other energy-efficiency projects.

The loans are secured by a property lien and if unpaid a borrower can be foreclosed upon. Consumers put no money down and usually don't pay anything for at least six months. Eligibility is largely based on home equity. Credit score and income are not a factor.

Many consumers simply know their loans as the HERO program, the name of the PACE program from the industry's biggest lender, Renovate America in San Diego.

Critics say PACE can serve a worthy purpose, but worry too many consumers are agreeing to loans they don't need or understand after being contacted by aggressive contractors, who often make cold calls or engage in door-to-door marketing.

According to lawsuits and interviews with borrowers and their advocates, some contractors are inflating the cost of their services and misrepresenting how much the loans cost or how they are paid back.

Contractors can get consumers approved on the spot, having them sign documents on a tablet computer — an experience advocates say can be confusing, particularly for elderly homeowners. Lenders then send final financing documents to homeowners for their signature, with the process taking a few hours to several days.

"They go out and push these sales and these projects without really any care whether people can actually afford it or not," said David Hiller, a Pasadena attorney who has handled PACE cases for consumers. "It feels exactly like what was going on with mortgage lending precrisis."

Cassina Edwards is upset over the possibility that her mother, Ossie Hill, 86, may lose her home to foreclosure due to non-payment for a PACE loan in Los Angeles.

The three major private lenders — Renovate America, Renew Financial of Oakland and Ygrene Energy Fund of Petaluma, Calif., — say most of their customers come away happy and point to low default and delinquency rates as evidence the programs are working.

Cisco DeVries established the first PACE program last decade while working for the city of Berkeley, later founding Renew Financial, where he is the chief executive. He says PACE has “democratized clean energy” by allowing consumers without much cash and less-than-stellar credit to fix their homes.

“We have had homeowners in tears” after they finally could finance repairs, DeVries said. “Any public policy, any private effort, by nature is going to be imperfect. But PACE has to be one of the most successful energy-efficiency programs in the history of the state and the country.”

The Western Riverside Council of Governments launched its PACE program in 2011 as a way to use private money to support a decimated construction industry and help homeowners conserve energy.

It has partnered with Renovate America and Renew Financial to offer loans and now oversees one of the largest PACE operations in the U.S., covering more than 380 municipalities statewide after it opened eligibility beyond Riverside County. In the last fiscal year, PACE fees accounted for $9.5 million of the council’s revenue, or 17.5% of its total budget, said Rick Bishop, the group’s executive director.

“Generally, it’s been really, really positive,” Bishop said of PACE. “We have hundreds and hundreds of really solid contractors. It’s a little disappointing the contractors are all getting painted with the same brush.”

A more typical experience, proponents say, is that of Lorri MacMillan, who last year used a $14,000 HERO loan to pay for an air conditioner. The Rancho Santa Margarita resident said her contractor didn’t misrepresent anything and Renovate called her to go over terms in detail — something the company said it began doing for every customer in recent months.

“It was a great process,” the 54-year-old bank systems analyst said.

PACE programs got their start in 2008 when Gov. Arnold Schwarzenegger signed legislation that authorized the special type of financing.

To fund the programs, governments issue bonds backed by the borrower tax assessments and then typically transfer collection rights to private PACE companies. The firms take those assessment bonds and compile them into securities and sell them on Wall Street to finance new loans.

Across the nation, less than 1% of all securitized PACE loans that Kroll Bond Rating Agency tracks have defaulted, said Cecil Smart, a senior director at the company.

Renovate America said over the last five years, none of its clients have been foreclosed on for not paying their PACE loan, but nearly 80 homeowners with such financing, or 0.08% of the total, have been foreclosed upon after they didn't pay their mortgage.

Consumer advocates say it's too early to tell if those rates will hold.

Renovate America has also drawn scrutiny from regulators following several Wall Street Journal stories, including one that revealed the firm paid the debts of some borrowers but didn't tell bond investors. The company said it did so in 83 cases in which borrowers were confused about when their payments would start.

Christian Guzman hasn't defaulted on his PACE loan, but he said he's struggling after a contractor walked through his L.A.-area neighborhood two years ago and asked if he wanted a free estimate to fix his roof.

Edwards says her mother was never warned she could lose her house if PACE loan payments were missed. (Genaro Molina / Los Angeles Times)

A few days later, Guzman said the contractor from All American Design in Torrance came back and told him he was qualified for more than $46,000 in HERO financing, which would cover a new roof and solar panels. Guzman said he agreed to both and signed documents on a tablet after the contractor told him a government grant would cover the $26,000 roof.

He recalled the tablet showing he would only pay around $20,000 in total, but acknowledged he didn't get a good look at the device.

"He held on to it pretty well. We saw only what he wanted us to see," Guzman said.

After the job was complete, he said he received a final payment schedule from Renovate that detailed he would owe much more — over $12,000 annually for five years — and later learned there would be no government grant.

The All American salesperson told him not to worry, and "after a while he just stopped answering," the 29-year old electrician said. Guzman also reached out to Renovate for help, but said he was told there was nothing they could do.

Renovate said Guzman's signature was electronically signed on a financing contract that detailed the more than $12,000 annual payment a week after the first document he signed, which was an application.

Guzman said he doesn't recall signing the second document.

"I honestly don't know how I am going to do this," he said. "It's an extra $1,000 a month I don't have."

All American Design did not respond to requests for comment. Renovate said it has kicked All American out of its program because the company didn't meet its standards under a new contractor rating system.

Today, California, Florida and Missouri have active residential PACE programs, while 19 other states have authorized such financing though programs aren't up and running, according to PACENation. Many states also have commercial PACE programs for businesses that have proved far less controversial.

The residential loans average around $25,000 and run five to 30 years. The loans typically carry rates of 6.5% to 8.49%, meaning with today's low-interest rates someone with good credit can often get a better deal with a home equity loan.

Most governments turn to private PACE companies to run the programs. The companies, meanwhile, use contractors to sell the loans.

"It's pretty painless as far as qualifying," contractor William Redmond, co-owner of AlumaCovers in Riverside, said of the HERO program. "It allows a client to afford what normally they couldn't afford. So, it's opened up another channel of new [sales]."

Speed is part of the allure.

Ygrene promises contractors training, lead generation, marketing materials and the ability to get customers "pre-approved in 30 minutes or less." Renovate offers "state-of-the-art tools" to "streamline every stage of your project." Renew Financial pledges that contractors can "submit financing documents with your customer at the kitchen table."

Redmond says he hasn't heard of contractors misusing PACE and that he tells clients to direct financing questions to Renovate.

"They don't make things complicated and they don't make a bunch of red tape," Redmond said.

But consumer groups say the swift approval process — along with weak contractor oversight and lack of underwriting — is leading to problems.

"When someone is weighing a $45,000 loan to put solar panels on the house, why do they need speed for that?" said John Rao, an attorney with the National Consumer Law Center. "You should not be rushing people through for these major retrofits."

The companies add that they disqualify for bankruptcies and missed mortgage payments and say speed is often needed for emergency repairs such as a broken air conditioner in 100-plus degree heat.

Borrowers also have a three-day right to cancel and contractors aren't paid until a homeowner signs off on a completed work form, Ygrene CEO Rocco Fabiano noted.

A lawsuit filed by Edwards alleges a 360 Remodeling employee tricked her mother into signing up for the loan by asking her to sign a tablet to only authorize her creditworthiness. In a court filing, the 360 Remodeling salesperson generally denied all allegations. (Genaro Molina / Los Angeles Times)

The three major companies are taking steps to improve consumer protections. For example, they say they now have a phone call with all consumers before approving a loan to ensure they understand the terms of financing — as recommended by the Department of Energy late last year.

Renovate said it will start using income as part of its underwriting later this month and in January it launched a new contractor rating system, removing more than 80 companies — 10% of the contractors that frequently used its financing.

Rao, of the national consumer group, acknowledged that consumers have long complained about aggressive, unethical contractors, but said PACE put those problems "on steroids," given how easy it is to qualify for funding.

"They are making a lot of money and they are creating the financial opportunities for these contractors," he said.

The California Contractors State Licence Board is investigating 50 cases in which consumers alleged solar contractors misrepresented PACE financing. Those making the complaints are often elderly or don't speak fluent English.

Two lawsuits filed in Los Angeles County allege that an employee from G.E. Solar Solutions of La Mirada signed homeowners up for Ygrene PACE financing after pitching the loans as leases for solar panels that would be paid off through their energy bills and also save them thousands of dollars.

The homeowners, who speak only Spanish, allege their signatures were forged on English-only Ygrene contracts and they estimate their debt exceeds $100,000, according to the two complaints.

One of the owners, Dolores Artiga, said she worries she can't keep up with the loan payments.

"It is difficult," Artiga, who works for a cleaning company, said in Spanish. "What I make is not enough money to pay this."

In court documents, an attorney for G.E. Solar denied the allegations.

In a statement, Ygrene said G.E. Solar, not Ygrene, is alleged to have misrepresented the financing and, if those allegations are true, the contractor's actions are "inconsistent with Ygrene's consumer protections policies and procedures."

Scott Minnix, director of the L.A. County Department that overseas PACE, said in a statement that the county has worked with its partners, Renovate America and Renew Financial, "to ensure the highest standards of consumer protection and fiscal accountability."

The county said that there has been no PACE foreclosures and that it has set up reserve funds to cover missed borrower payments for a time, making a quick foreclosure unlikely for those who've missed PACE payments.

Even so, Edwards, the daughter of the Los Angeles homeowner, is worried and in April filed a lawsuit against Renovate and 360 Remodeling of Burbank, which painted her mother's house and installed windows and a patio cover it said would reduce energy use.

The lawsuit alleges a 360 Remodeling employee tricked Hill into signing up for a loan with an annual payment of more than $5,000 by asking her to sign a tablet to only authorize her creditworthiness.

A final contract for Edwards and Hill to review was to be put in the mail, the complaint says.

In a court filing, the 360 Remodeling employee denied all allegations.

Frank Cicora, the company's general manager, said he didn't know what the worker said, but the family knew Hill was taking out a loan and the financing terms would have been explained on the tablet and by Renovate over the p hone.

"They are upset because they can't afford something they committed to," he said, adding the family agreed to move ahead with the project.

A spokesman for Renovate denied the complaint's allegations, which include weak contractor oversight, and said the company will defend itself vigorously. He said 360 Remodeling "scores well" in Renovate's contractor rating system.

Edwards said a final contract to review never came in the mail, but she trusted the contractor, who quickly began ripping up the outside of her mother's home.

"They already tore down the house. If I told them to stop, who would fix it?" Edwards said, sitting next to her mother on the living room couch. "This situation has been very stressful for my mom."

A few minutes later, Hill began to tear up and asked to leave.

Part 2: With some borrowers struggling, regulators, polticians and the industry grapple with reform. »

SAY NO TO PACE

Property Assessed Clean

Property Assessed Clean Energy (PACE) programs are another way to finance energy efficiency projects. Unlike other energy improvement programs, however, PACE financing attaches to your home in the form of a property tax. This dangerous financing scheme is causing enormous problems for homeowners. Some of the problems with PACE financing are as follows:

- **Predatory Lending:** Qualification is based on home equity rather than on the borrower's ability to repay, which violates the U.S. Department of the Treasury's prohibition against predatory lending practices.
- **Structured as a Property Tax Assessment:** Because the amount borrowed is structured as a property tax assessment, it attaches to the property itself rather than to the owner, which negatively affects the owner's ability either to sell the property or to refinance it and restricts a potential buyer's ability to qualify for a mortgage on the property.
- **"Super-Priority" Lien:** The amount borrowed is structured as a "super-priority" lien on the property, which means that, in the event of default, the PACE loan takes repayment priority over even the first mortgage. This arrangement violates the conditions spelled out in most mortgage agreements, negatively affects the owner's ability either to sell the property or to refinance it, and restricts a buyer's ability to qualify for a new mortgage on the property.
- **No Proof of Benefit or Value:** Because the energy-efficient home improvements financed with PACE programs are often sold without either a home energy audit or a third-party certification of their operational effectiveness, the homeowner has no basis for performing a cost-benefit analysis or for assessing the true value of the improvements.
- **No Utility Cost Offset:** The homeowner is told that he or she will save enough on utility bills to cover the cost of the energy-efficient upgrades, but this utility cost offset seldom materializes. More often, the hapless homeowner ends up deep in the red.
- **Price Inflation:** PACE contractors inflate their prices for energy-efficient renovations, often charging far more than fair market value.
- **No Financial Oversight:** Most of the contractors pitching PACE financing options have no financial expertise, and their offers and promises are not currently being scrutinized by any financial institution or government agency.
- **High Interest Rates:** The interest charged for PACE financing can be as much as twice the amount charged for a home equity loan or on loans obtained via other financing alternatives.
- **Large Payoff Penalties:** The penalties for early payoff are large and may include extended interest payments.
- **Harsh Late-Payment Penalties:** Late payment or failure to pay is penalized in the same way as failure to pay property taxes and could result in foreclosure.
- **Automatic Default:** A homeowner whose mortgage agreement specifically prohibits any other loan or lien from taking priority over the first mortgage—and most do—will be automatically in default. Thus, the lending institution holding the first mortgage can require accelerated payment or initiate foreclosure.

SBAOR
Santa Barbara Association of REALTORS®

CURRENT ENERGY EFFICIENCY FINANCING PROGRAMS THAT WORK!

emPower Central Coast: This loan program allows borrowers to make home upgrade projects easier and more affordable through low-interest, unsecured loans, utility incentives up to $6,500, free home energy site visits, and qualified contractors.

Energy Efficient Mortgage (EEM): This loan program allows borrowers to finance cost-effective, energy-saving improvements as part of a single mortgage. These mortgages make it possible for property owners to borrow above the appraised value and stretch debt-to-income qualifying ratios. To ensure the effectiveness of EEMs and to make certain proper upgrades are performed, these loans require an energy audit. EEMs are an FHA product, but the VA has its own version.

Federal Housing Administration (FHA) PowerSaver Loans: This loan program offers three financing options for homeowners to make energy efficiency and renewable energy upgrades to their homes.

> **PowerSaver Home Energy Upgrade (Up to $7,500):** This program is for smaller projects for those with manageable debt and a credit score of 660 or higher. The projects include things like insulation, air and duct sealing, water heating, and upgrading or replacing heating and cooling equipment. Loans of this kind do not require a home appraisal or lien on the property and are insured by FHA.
>
> **PowerSaver Second Mortgage (Up to $25,000):** This program is for larger retrofit projects, including energy efficiency, solar photovoltaic, solar hot water, geothermal, or other renewable energy projects. A home appraisal or equity is generally required, and borrowers will likely not qualify if they already have a second lien or second mortgage on the property.
>
> **PowerSaver Energy Rehab (203(k) First Mortgage up to FHA loan limits):** This program is for the purchase or refinance of a home. At least $3,500 of the home improvements must consist of eligible PowerSaver measures. FHA insures the mortgage with the improvement project.

HomeStyle® Energy Mortgage: This Fannie Mae program allows borrowers to make energy efficiency or utility-cost- reducing upgrades within the mortgage when purchasing or refinancing a home. This program also offers $3,500 for certain types of weatherization and water-efficiency improvements. Note: Fannie Mae allows those with a Property Assessed Clean Energy (PACE) loan to finance with this program.

HomeStyle® Renovation Mortgage: This Fannie Mae program allows borrowers to make renovations, repairs, and improvements totaling up to 50 percent of the as-completed appraised value of the property with a first mortgage.

Freddie Mac Renovation Mortgage: This program allows borrowers to repair, restore, rehabilitate, or renovate their existing site-built homes within a Freddie Mac mortgage.

The Southern California Gas Company Home Energy Upgrade Financing (HEUF) Program: This program offers loans ranging from $2,500 to $20,000 for the purchase and installation of energy-efficient upgrades. Eligible technologies include water heaters, refrigerated air conditioners, evaporative coolers, double-pane windows, building and equipment insulation, roofing, spa/pool heaters, insulated plantation shutters, and permanently installed natural gas barbecues.

The California Housing Partnership Corporation Ratepayer Integrated On-Bill Payment Program (RIOPP): This relatively new kind of financing is tailored to low-income multifamily rental properties and allows retrofit costs to be included in a tenant's energy bill.

Southern California Edison Energy Savings Assistance Program: For income-qualified customers, Edison will provide free appliances and installation of energy-efficient refrigerators, air conditioners and more, as well as home efficiency solutions like weatherization that will help save energy and money.

Financing Estimate and Disclosure

15073 Avenue of Science, San Diego, CA 92128

Save this Financing Estimate and Disclosure to compare with your Final Payment Summary.

DATE ISSUED	01/03/2017	**TERM**	10 years
PROPERTY OWNERS	Joe Smith 123 Blueberry Ln San Diego, CA 92127	**PURPOSE**	Home Improvement
		PRODUCT	HERO Program
		IDENTIFICATION #	CA07300000
PROPERTY ADDRESS	123 Blueberry Ln San Diego, CA 92127	**RATE LOCK**	☐ NO ☒ YES, until 06/15/2017 After the expiration date interest rates and closing costs can change.

Notice to Property Owner: You have the right to request that a hard copy of this document be provided to you before and after reviewing and signing. The financing arrangement described below will result in an assessment against your property which will be collected along with your property taxes and will result in a lien on your property. You should read and review the terms carefully, and if necessary, consult with a tax professional or attorney.

Customer Service Toll-Free Telephone Number and Email

In the event you have a consumer complaint, questions about your financing obligations related to the contractual assessment or your contractual rights under the terms of your financing contract, you can contact either this toll-free telephone number or email address provided below and receive a response within 24 hours or one business day.

Toll-free telephone number: (855) HERO-411

Customer service email address: info@heroprogram.com

Products and Costs

Product Cost *(Including labor/installation)*	$10,000.00	• Heating, Cooling & Ventilation - Air Conditioner

Financing Costs

Application Fees and Costs	$499.00
Prepaid Interest	$569.15
Other Costs	$80.00
Total Amount Financed	$11,148.15
Simple Interest Rate	7.69%
Annual Percentage Rate (APR)	9.47%
Balloon Payment	$0.00

Projected Payments

Total Estimated Annual Principal, Interest and Administrative Fees	**$1,663.25**

Note: If your property taxes are paid through an impound account, your mortgage lender may apportion the amount and add it to your monthly payment. See "Other Considerations," below. This financing arrangement will result in an assessment against your property which will be collected along with your property taxes.

Financing Estimate and Disclosure

Other Costs

A. Origination Charges[1]	**$499.00**
Application Fee	$0.00
Bond Related Costs	$499.00
B. Services	**$0.00**
Appraisal Fees	$0.00
Credit Reporting Fees	$0.00
C. Recording and Administrative Fees[1]	**$80.00**
County Recording Fees	$55.00
One-time Assessment Administration Fee	$25.00
D. TOTAL FINANCING COSTS (A + B + C)	**$579.00**

[1] *Included in "Financing Costs" in preceding section*

Prepaid Interest

E. Prepaid Interest[1] *(From closing to September 2nd of the year in which you make your first assessment payment)*	**$569.15**

Total Financing Costs and Closing Costs

F. TOTAL CLOSING COSTS (D + E)	**$1,148.15**

Calculating Cash to Close

Total Financing Costs and Closing Costs (F)	$1,148.15
Closing Costs Financed *(Paid from Financed Amount)*	-$1,148.15
Down Payment/Funds from Borrower	$0.00
Estimated Cash to Close *(Out of pocket)*	**$0.00**

Other Terms

Prepayment Fee	☒ NO ☐ YES	*Interest will accrue until the 2nd day of the 2nd month following payoff*
Annual Program Administrative Fee	☐ NO ☒ YES	*Annual administrative fee of $25.00 is subject to change*

Additional Information About this Financing

Use this information to compare to other financing options

Total amount you will have paid over the term of the financing		$10,579.00	*Principal you will have paid off* *(excluding any prepaid interest if financed)*
	+	$5,803.51	*Amount of interest you will have paid* *(including any prepaid interest if financed)*
	+	$250.00	*Amount of financing and other costs you will have paid*
	=	$16,632.51	*Total you will have paid in principal, interest, financing and other costs*
Annual Percentage Rate		9.47%	*Your costs over the term expressed as a rate. This is not your interest rate.*
Total Interest Paid		34.89%	*As a percentage of all the payments you will have made*

Financing Estimate and Disclosure

FINANCING PROVIDER	Renovate America: HERO Program
EMAIL	info@heroprogram.com
PHONE	(855) HERO-411

Other Considerations

Home Sale or Refinancing	I understand that I may be required to pay off the remaining balance of this obligation by the mortgage lender refinancing my home. If I sell my home, the buyer or their mortgage lender may require me to pay off the balance of this obligation as a condition of sale.	PO INITIAL
Tax Payments and Monthly Mortgage Payments	**Your payments will be added to your property tax bill.** Whether you pay your property taxes through your mortgage payment, using an impound account, or if you pay them directly to the tax collector, you will need to save an estimated $1,663.25 for your first tax installment. If you pay your property taxes through an impound account, you should notify your mortgage lender, so that your monthly mortgage payment can be adjusted by your mortgage lender to cover your increased property tax bill.	PO INITIAL
Tax Benefits	Consult your tax advisor regarding potential tax credits, credits and deductions, tax deductibility, and other tax benefits available for the HERO Program. Making an appropriate application for the benefit is your responsibility.	PO INITIAL
Statutory Penalties	If your property tax payment is late, the amount due will be subject to a 10% penalty, late fees, and 1.5% per month interest penalty as established by state law and your property may be subject to foreclosure.	PO INITIAL
Three Day Right to Cancel	You, the property owner, may cancel the contract at any time on or before midnight on the third business day after the date of the transaction to enter into the agreement without any penalty or obligation. In addition to this three day right to cancel, you may also cancel the transaction at any time prior to signing the Completion Certificate. To cancel this transaction, you may mail or deliver a signed and dated copy of the contract with notice of cancellation to: HERO Program 15073 Avenue of Science San Diego, CA 92128 You may also cancel the contract by sending notification of cancellation by email to the following email address: cancellations@heroprogram.com.	PO INITIAL
Estimated Cost Savings	I understand that any utility bill savings I might experience as a result of any installed product(s) financed through the HERO Program will depend on my usage, utility rates, and the efficiency of such product(s). Any estimated savings are not guaranteed and will not reduce my assessment payments or my total assessment amount.	PO INITIAL

Confirm Receipt

This confirms the receipt of the information in this form. You do not have to accept this financing just because you acknowledge that you have received or signed this form, and it is not a contract.

Joe Smith	Date	Property Owner 2	Date
Property Owner 3	Date	Property Owner 4	Date

hero

HERO Program Payoff Statement

Statement Date:	12/23/2016
Total Payoff Amount Due:	$17,938.45
Valid Through Date:	**12/30/2016**
Bond Series:	160114-BE-LA-R-02-10A
HERO ID Number:	RLA12345N-123456
APN:	0123-456-789
Contract Owner:	Jane Doe
Property Address:	1234 Main Street Santa Clarita, CA 12345

Thank you for choosing the HERO Program to finance your home improvement project. Please note that the information below does not reflect any utility bill savings and/or tax deductions which may have benefited you as a result of participating in the program.

Description of Payment	
Project Cost (labor and products) 12/16/2015	$16,615.00
HERO administration program cost [1]	$933.17
County recording and processing fee [2]	$130.00
Interest from 12/16/2015 to 2/2/2017	$1,621.85
Assessment Payments via property tax bill from 7/1/2016 to 6/30/2017 [3]	$(1,361.57)
Payoff Balance Total (valid until 12/30/2016):	**$17,938.45**

YOUR PAYMENT SLIP

Total payoff amount of **$17,938.45** is valid through **12/30/2016**

TO MAIL IN PAYMENT

Please include slip with your check made payable to "LA Hero Program" write your APN and HERO ID number on the check and mailed to:

CIT Bank, N.A.
Attn: Client Banking Services
888 East Walnut Street
Pasadena, CA 91101

TO MAKE A WIRE TRANSFER

Please include all the information below on your wire transfer to ensure a successful transaction.

APN:	0123-456-789
HERO ID:	RLA12345N-123456
Account Name:	LA Hero Program
Account #:	2980003909
ABA:	322270288
Address:	CIT Bank, N.A. 888 East Walnut Street Pasadena, CA 91101

RENOVATE AMERICA

MLS - HERO Home Sales vs. All Home Sales

hero

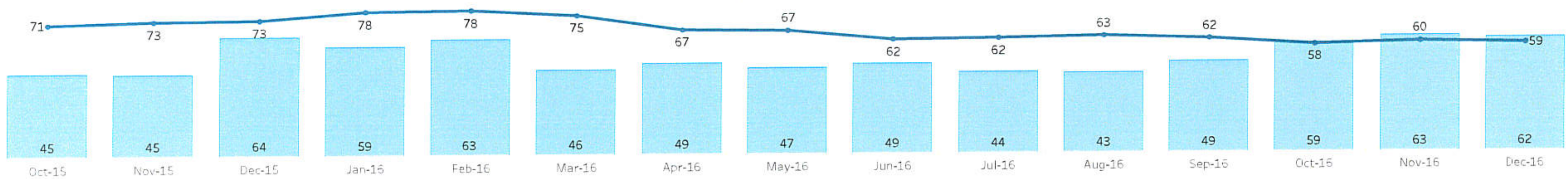
ByMonthYear
10/1/2015 12:00:00 AM to 12/31..
and Null values

Type	# of Sales	Avg. DOMSaleDAte	Avg. Sale Price To List Price	
Hero	1,292	52.2	99.38%	
Market	52,129	$349,606	67.0	98.30%

***ONLY Includes Riverside and San Bernardino MLS data

Date Range
Monthly
Quarterly

Average Days On Market (DOM)



Average Sale PriceTo List Price Ratio