

Additional Testimony in Opposition to SB 973 AAC A RESIDENTIAL SUSTAINABLE ENERGY PROGRAM

The Ct Bankers Association opposes the proposed legislation SB 973 which would establish an RPACE program in Connecticut. The program's goal, as you know, is to assist homeowners in financing energy improvements.

All real estate lenders in Connecticut support energy conservation. In fact, the Ct Bankers Association worked closely with the Green Bank to create a very successful state-wide Commercial PACE (CPACE) program - a program that has been used as a model on a nationwide basis.

Regrettably however, due to some significant differences in how the commercial and residential real estate markets work - coupled with a particular financing method that the RPACE program is based on - residential real estate lenders must oppose legislation that would create an RPACE program (as contemplated in the past) in Connecticut.

Specifically our concerns with RPACE are as follows:

- CPACE loans require that the lender consent to the energy improvement loan, whereas RPACE loans (as proposed in recent legislative sessions and SB 973) would not be able to.
- Commercial loans are not sold into a secondary market - while 70% of residential loans are sold into the secondary market (Fannie Mae & Freddie MAC).
- RPACE loan financing calls for the loan to take the form of a tax lien, which means that the loan has super priority status in the case of default - in other words, the RPACE loan gets paid off before any other liens including the first mortgage.
- Due to the financing method described above, the Federal Housing Finance Authority (FHFA), which is the regulator of Fannie & Freddie, has determined it will not purchase or refinance any mortgages that have an RPACE loan attached to them.
- As stated earlier, approximately 70% of the residential loans originated in the US and CT are sold to Fannie or Freddie. FHFA's decision not to purchase mortgage loans with RPACE loans attached creates serious problems for anyone who is trying to sell their home with an RPACE lien attached to it. Largely because a lender that intends to sell that mortgage to the secondary market will not originate that loan, if they can't sell it to Fannie and Freddie.
- In addition, lenders make real estate loans based on the value of the property (collateral). These loans are made with the expectation that in the case of default, the first mortgage holder will be next in line after bona fide municipal property tax liens. Allowing an RPACE loan to jump ahead of the first mortgage - after the mortgage has been made and

without the lenders knowledge - would have serious consequences for the residential real estate market, and is patently unfair to lenders.

Below we have attached weblinks to three documents for your review. The first is testimony from FHFA's General Counsel before the California legislature outlining FHFA's position on RPACE loans. The next two are news stories that outline various concerns with certain RPACE programs.

Thank you again for your consideration of our concerns with the RPACE concept, and please do not hesitate to contact us if you have any questions or concerns.

<https://www.fhfa.gov/Media/PublicAffairs/Pages/Pollard-Statement-before-California-Legislature-Keeping-Up-with-PACE.aspx>

<http://www.governing.com/gov-institute/voices/col-property-assesed-clean-energy-program-local-government-loan-servicers.html>

<http://www.reuters.com/article/us-energy-california-homefinance-insight-idUSKCN0SD0DP20151019>

Sincerely,

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