



Announcement 16-32

Date: September 2, 2016

Topic: FHA ML 2016-11 and VA Circular 26-16-18: PACE Assessments

PACE loans are used to finance energy improvements and are secured by the property with payments collected through the borrower's property taxes. Previously, PennyMac did not allow a Property Accessed Clean Energy (PACE) loan to remain outstanding for a property that will be secured by an FHA or VA loan.

Effective immediately, PennyMac is aligning with FHA and VA's guidelines regarding properties with outstanding PACE loans. In order for a property to be eligible for FHA or VA financing with a PACE loan remaining secured against the property, the following must be met:

- Under the laws of the state where the property is located, the PACE loan must be collected and secured by the creditor in the same manner as special assessment taxes against the property;
- The property may only become subject to an enforceable claim (i.e., lien) that is superior to the FHA-insured or VA-guaranteed mortgage for delinquent regularly scheduled PACE special assessment payments. The property shall not be subject to an enforceable claim (i.e., lien) superior to the FHA-insured or VA-guaranteed mortgage for the full outstanding PACE loan at any time (i.e., through acceleration of the full obligation). However, a notice of the lien for the full PACE loan may be recorded in the land records;
- There are no terms or conditions that limit the transfer of the property to a new homeowner. Legal restrictions on conveyance arising from a PACE loan that could require consent of a third party before the owner can convey the real property are prohibited, unless such provisions may be terminated at the option of, and with no cost to, the homeowner;
- The existence of a PACE loan on a property is readily apparent to mortgagees, appraisers, borrowers and other parties to an FHA-insured or VA-guaranteed mortgage transaction in the public records. Information on the PACE obligation must be readily available for review in public records;
- In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount;
- All terms and conditions of the PACE loan must be fully disclosed to the borrower and made part of the sales contract between the seller and the borrower;

- Lenders must notify the appraiser of all terms and conditions of the PACE loan; The appraiser must (if applicable):
 - review the sales contract and property tax records for the Property to determine the amount outstanding and the terms of the PACE obligation:
 - if the mortgagee notifies the Appraiser that the subject Property will remain subject to a PACE obligation,
 - when the appraiser observes that the property taxes for the subject Property are higher than average for the neighborhood and type of dwelling, or
 - when the appraiser observes energy-related building components or equipment or is aware of other PACE-allowed improvements during the inspection process.
 - report the outstanding amount of the PACE obligation for the subject property and provide a brief explanation of the terms
 - analyze and report the impact on value of the property, whether positive or negative, of the PACE-related improvements and any additional obligation (i.e., the PACE special assessment). Specific language must be included in the appraisal report providing this information.

Please contact your Sales Representative with any questions.