



FHFA ASKS:

ARE PACE LOANS A THREAT TO GSEs?

The Federal Housing Finance Agency (FHFA) is requesting input on residential energy retrofitting programs financed through special state legislation enabling a “super-priority lien” over existing and subsequent first mortgages. The FHFA is particularly interested in input on potential changes to its policies for its regulated entities based on safety and soundness concerns, also known as Property Assessed Clean Energy (PACE).

PACE programs allow municipalities to provide financing for energy-efficient retrofitting through property tax assessment, which gives the liens so-called super-priority over the first-lien mortgage holder, assuring priority status over any first lien mortgage at any tax sale or foreclosure sale.

The FHFA is asking for input on potential changes to its policies for the GSEs (Government-sponsored enterprises) based on safety and soundness concerns, as PACE programs “present a threat to the quality and stability of large amounts of Enterprise loans.”

“One of the bedrock principles in this process is that the mortgages supported by Fannie Mae and Freddie Mac must remain in first-lien position, meaning that they have first priority in receiving the proceeds from selling a house in foreclosure,” the FHFA said. “As a result, any lien from a loan added after origination should not be able to jump in line ahead of a Fannie Mae or Freddie Mac mortgage to collect the proceeds of the sale of a foreclosed property.”

Additionally, the FHFA wants to know if it should direct the GSEs to decrease loan-to-value ratios for all new loan purchases in states or in communities where PACE loans are available, and by how much.

The FHFA is asking respondents if servicers of mortgage loans for Fannie Mae and Freddie Mac should provide an annual or more frequent notice to existing borrowers in PACE-eligible communities informing them that, under the terms of their mortgage, PACE liens are not permitted.

The FHFA also asked for input on other actions regarding standards for the Federal Home Loan Banks accepting eligible advance collateral mortgage loans in communities where PACE loans are available, and how these standards best address the increased risk of such collateral.

Source: <https://www.clta.org/news/489748/FHFA-Asks-Are-PACE-Loans-a-Threat-to-GSEs.htm>

