



# PACE Loans: Are energy efficient improvements financially worth it?

## New data gives an answer

[Laurie Goodman](#) and [Jun Zhu](#)

December 17, 2015

The PACE (Property Assessed Clean Energy) programs are designed to give homeowners new ways to finance energy efficient home improvements.

These programs, approved in 31 states, have been very controversial and the market has been slow to develop because of FHFA regulatory concerns over the issue of lien priority.

Under current rules, PACE assessments are billed with property taxes, and generally have a lien priority on par with tax liens and above the liens on first mortgages.

This has resulted in a reluctance of the GSEs and the FHA to purchase or insure mortgages on properties with a PACE loan. In 2010, FHFA expressly directed the GSEs not to purchase mortgages affected by first lien PACE obligations; but never followed up with a formal rule.

The FHA has been largely silent on the issue of insuring mortgages with PACE loans, and has, until recently, not sought to develop a consistent approach. In August of 2015, FHA issued a statement that it will make financing available for single family homes with subordinated PACE loans, subject to certain conditions, which have not yet been announced.

We believe that if the market for PACE improvements is to develop, the PACE lien must be subordinated, in line with recent FHA statements.

This leaves a critical design question which our research study attempted to address: if a home moving to foreclosure utilizes the core PACE approach of having the assessment (in this case subordinated) travel with the property (as all tax assessments do), would the GSEs and FHA be worse off than a similarly situated home which had no PACE improvement or assessment, because it would realize a potentially lower sale value?

Using a number of methodologies, we find that homes with subordinate PACE financing that travels with the property provide collateral for FHA and GSE loans that is at least as strong and indeed likely stronger than properties without PACE improvements.

## Data

The only state that has developed a large PACE loan program is California: the largest PACE participant

is Renovate America, with a 90% share of the California market. This research study examines data on the 773 homes that financed a renovation in California through the program offered by Renovate America, where the home was subsequently resold. The average purchase price was \$236,324, the average sale price was \$342,577, and the average adjusted sale price was \$331,890 (accounting for the homes where the sales proceeds were used to pay off the assessment). All homes in the sample were resold between 2012 and 2015.

We compared the actual value of the 773 homes (adjusted downward for any PACE balance payoffs) to the resale value of similarly situated non-PACE homes. We used three different methodologies for this study to ensure robustness; our results consistently showed that PACE homes sold at a price of \$199 to \$8,882 over comparable non-PACE homes after taking into account the financing costs of the project. This study differs from previous studies in two respects: it is the first study to look at the data of actual homes that have deployed PACE, then subsequently sold; and second it is the first study to determine not just whether the energy renovations added value to a home, but whether the value of the home energy renovation exceeds or falls short of its financing cost.

## Methodology and Results

**Methodology #1:** Compare the actual adjusted resale price for homes with PACE loans to the projected market value based on the CoreLogic zip code level Home Price Index, the FHFA state level index (California) and the FHFA division level index (Pacific Census Division, includes California, Washington, Oregon, Alaska and Hawaii)

The Results: PACE homes sold at a \$199 premium using the CoreLogic Monthly HPI, \$1,667 using the FHFA state index and \$8,882 using the FHFA division level index (Exhibit).

**Methodology #2:** We matched each loan in the sample to a random non-PACE loan in the CoreLogic property database with the same zip code, purchase year and sale year. We then compared the purchase and adjusted sale price of the PACE homes to our non-PACE sample.

The Results: We found the average purchase price of the PACE homes was \$1,591 cheaper than the non-PACE sample, the average adjusted sale price of the PACE homes was \$3,419 higher, for a total difference of \$5,010 which is statistically significant.

**Methodology #3:** We pooled loans with PACE improvements and our matched sample of loans without PACE improvements, and ran a multivariate regression analysis. The dependent variable was resale price, the independent variable includes purchase price, square feet of living space, number of baths and whether or not the property had a PACE loan. In some regressions, we included a variable to indicate whether the home was purchased from foreclosure.

The Results: A PACE improvement will increase home resale value by \$4,042. If the PACE home was purchased from foreclosure, the increase was \$6,824.

These results are summarized in the Exhibit.

**Click to enlarge**

Exhibit 1

Methodology	PACE Premium
Methodology 1: Comparison to Home Price Indices	
CoreLogic Monthly Zip	\$199
FHFA Quarterly State	\$1,667
FHFA Monthly Division	\$8,882
Methodology 2: Comparison to Random Sample of Similar Non-PACE Homes	\$5,010
Methodology 3: Comparison with Multivariate Regression	
All Sales	\$4,042
Homes Purchased Out of Foreclosure	\$6,824

## Summary and Discussion

Thus, we see that regardless of the methodology used, the PACE premiums, after taking into account financing costs, ranged from \$199 to \$8,882. That is, the homeowner recovered more than their investment. By contrast, in most other improvements such as kitchen and bathroom remodeling, recent studies show the homeowner recovers only 60% or so.

And these results may actually understate the value of the PACE improvements upon resale:

- Many homeowners opt for an improvement when the original equipment breaks. If the improvements did not occur, the home value may well have been lower.
- Energy efficient improvements are a relatively recent phenomenon. Home buyers may be reluctant to fully capitalize into prices the present discounted value of lower energy costs, as they are unsure how long the improvement will last. Over time, we may see higher capitalization rates.

In conclusion, we find that homes with subordinate PACE financing that travels with the property provide collateral for FHA and GSE loans that is at least as strong as properties without PACE improvements.

*Laurie Goodman is the Director of the Housing Finance Policy Center at the Urban Institute and Jun Zhu is a Senior Financial Methodologist at the same institution. However this report/presentation was funded by Renovate America, and is not a product of the Urban Institute. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.*



Laurie Goodman is the Center Director for the Housing Finance Policy Center at the Urban Institute. This Center is dedicated to providing policy makers with data-driven analysis of housing finance policy issues that they can depend on for relevance, accuracy, and independence.



Jun Zhu will be a full-time senior financial methodologist at the Urban Institute. Zhu earlier worked as a senior economist in the Office of the Chief Economist at Freddie Mac where she has conducted research on the mortgage and housing markets, including default and prepayment modeling.



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## California HERO Program Creates 10,000 New Jobs by Upgrading 50,000 Homes with Energy and Water Savings Products

Jan 26, 2016, 13:03 ET from Renovate America

(<http://www.prnewswire.com/news/renovate+america>)



.slides li img { height: auto; max-width: 100%; max-height: 600px; }

SAN DIEGO, Jan. 26, 2016 /PRNewswire/ -- Officials at the HERO Property Assessed Clean Energy (PACE) Program today announced that more than 10,000 local jobs have been created in California through HERO projects completed in more than 50,000 homes since the program launched in December 2011. HERO financing enables homeowners to make energy- and water-efficiency improvements and to pay for them over time through their property tax bill. This financing may have tax benefits and homeowners may see immediate savings on utility bills. New jobs created by the program are primarily for contractor services in the clean-energy economy in communities throughout the state.

"What we set out to do in communities throughout California was provide an option for homeowners to affordably choose energy efficiency, renewable energy, or water conserving products when they made needed repairs," said J.P. McNeill, CEO of Renovate America, the company that administers the HERO Program. "We've now done that for 50,000 homeowners—and in turn more than 10,000 new jobs have been created in California."

The majority of homeowners who choose HERO had a system in their home fail or need replacement or an upgrade. HERO's PACE financing allows them to make an investment in their home that is likely to lower its operating cost, with no upfront cash required, and to be paid back over terms based on the useful life of the product through their property tax collection. Those terms are often longer than credit cards or home equity lines of credit would allow, bringing monthly payments within reach.

That affordability makes a variety of energy-saving products available, including solar power panel installations, whole-home heating and cooling (HVAC) systems, energy-saving windows and doors, and roofing and insulation. HERO also supports a variety of products to help homeowners save water, including high-efficiency toilets, faucets and showerheads; drip irrigation systems; rainwater catchment systems; gray water systems; and artificial turf and other drought-tolerant landscaping.

In addition to creating jobs, the 50,000 homeowners will save an estimated \$2.2 billion on lower utility bills, conserve 7.8 billion kWh of energy, reduce emissions by 2.1 million tons or the of equivalent taking 400,000 SUVs off the road for a year, and save more than 2.9 billion gallons of water or the equivalent of 92 million showers.

"The transition to a clean energy economy is happening now," said Congressman Scott Peters. "The Clean Power Plan, Paris Climate Agreement, and extension of renewable tax credits continue to encourage private sector investment in clean energy to reduce emissions and mitigate climate change. The success of the HERO Program is proof that we don't have to choose between a clean environment and a prosperous economy."

A wide range of jobs contribute to fulfilling a homeowner order for new solar panels, an upgraded heating and air conditioning system, or a water-saving artificial turf installation. By stimulating home renovation activity, PACE financing drives job creation. And because the work is done locally, contractors and support and administrative personnel typically feed their earnings back into their communities, which benefits other local businesses. Jobs created through HERO tend to be long-term, family-wage earning positions.

A recent study conducted by nationally-recognized housing economist Laurie Goodman showed that on average homes with HERO improvements sell at a price premium that can range from \$199 to more than \$8,800. That means energy and water projects recover and often exceed the investment, compared to recent studies showing popular kitchen and bathroom remodels recover only 58 percent to 66 percent of their costs. Homeowners may also benefit immediately from efficiency-oriented improvements through lower utility bills and potential tax benefits.

The HERO Program has received numerous awards, including the Governor's Environmental and Economic Leadership Award, the Urban Land Institute Best of the Best and the Southern California Association of Governments President's Award for Excellence. Taking part in the HERO Program is 100 percent voluntary for both jurisdictions and property owners. The program is cost neutral to participating local governments. The HERO Program has now been adopted by 370 communities in California, within 37 counties, and has funded more than \$1 billion in efficiency upgrades since December 2011.

For more information, please visit [www.HeroProgram.com](http://www.HeroProgram.com). **To find out more about how many homes have been improved or jobs have been created in your community, or to schedule interviews** with local HERO representatives, elected officials, homeowners, or contractors, or for a media kit, please contact Severn Williams at 510-336-9566 or [sev@publicgoodpr.com](mailto:sev@publicgoodpr.com).

### About Renovate America

Renovate America is the fastest-growing provider of financing for energy- and water-efficiency home improvements in the U.S. The company's HERO Program provides local governments with a comprehensive residential PACE financing solution that also includes consumer protection, business automation software, workforce training and ongoing access to private capital. This

unique public-private partnership offers consumers access to more than 60 types of products that reduce energy and water consumption. Public recognition of HERO includes the Governor's Environmental and Economic Leadership Award in California, the Urban Land Institute Best of the Best, and the Southern California Association of Governments President's Award for Excellence. Additional information can be found at [www.renovateamerica.com](http://www.renovateamerica.com) and [www.heroprogram.com](http://www.heroprogram.com).

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**Justin Gerdes** Contributor

*I cover clean energy solutions*

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# Bucking A Trend, California Residential Clean Energy PACE Program Thrives

Resistance from federal housing officials nearly scuttled the residential market for property assessed clean energy (PACE) financing, as cities and counties across the country shuttered programs. But a few jurisdictions bucked the trend. One outlier is the [HERO](#) (Home [Energy](#) Retrofit Opportunity) program, which appears to be thriving in western [Riverside](#) County, California.

I have written frequently at this blog about PACE financing. My posts have focused, for instance, on the launch of commercial PACE programs in [California](#), [Connecticut](#), and [South Florida](#).

Such reporting is valuable, I hope, in keeping readers up to date on the nascent but fast-maturing PACE market. The HERO program, which launched in December 2011, can claim the distinction of being the rare PACE program that has successfully funded projects. [Renovate America](#), which runs the HERO program for the [Western Riverside Council of Governments](#) (WRCOG), [announced](#) earlier this month the approval of more than \$50 million for residential energy retrofits, with half of that funding approved since July.

[According to PACENow](#), an advocacy group, 2,000 homeowners have applied for HERO PACE financing; of these, 1,250 have met the program's underwriting criteria. Some 300 residential projects worth \$5 million have been completed. Two-thirds of the projects have

Mortgage Rates Hit

**3.13% APR**

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funded energy efficiency measures; the most popular improvements: upgraded HVAC units (30%), windows and doors (24%), and insulation (6%). The balance of projects funded is largely rooftop photovoltaic systems.

The HERO program for the commercial sector has been slower to complete deals. PACENow reported that a \$700,000 project was slated to close in August, with projects valued at \$20 million more expected to close in the coming year. WRCOG Executive Director Rick Bishop [told the \*Riverside Press-Enterprise\*](#) last month that private lenders have committed \$225 million to finance commercial HERO projects.

The design of PACE programs varies widely, but the basic premise is the same. A residential or commercial property owner is able to tap low-interest financing to fund energy efficiency and renewable energy upgrades without the burden of upfront costs. An audit is often undertaken to identify energy- and water-saving opportunities.



*The HERO program, which launched in December 2011, can claim the distinction of being the rare PACE program that has successfully funded projects. Credit: WRCOG*

Property owners wishing to pursue PACE financing then enter into an assessment contract, tied to the property, which releases the project funding; in the case of the HERO program, the homeowner enters into an agreement with Renovate America, which also funds the program. The contract stipulates that the property owner agrees to repay the cost of the improvements through an annual property tax assessment lasting up to 20 years. If a building is sold or transferred, the PACE lien remains tied to the property.

The HERO program relies on contractors to sell PACE financing to property owners. More than 400 contractors are now registered. WRCOG expects the HERO program will create up to 4,000 jobs in the region. Reporting by the

## Today's Mortgage Rates

# 3.13%

APR

[Calculate New Payment](#)

*Riverside Press-Enterprise's* Debra Gruszecki revealed that contractors are seeing a boost in business and adding jobs.

"It's had an extreme impact on business," Douglas McMillan, general manager of Riverside-based California Showcase Construction, told Gruszecki. "I'd say 75 percent of our work is HERO at this point; business has been so good, we've hired more people — seven, so far."

Another small business owner, Mike Mohr of Mohr Power Solar said: "HERO has definitely put more people to work. Our business is up 10 to 15 percent." Mohr said the extra business has preserved jobs at his company that would have been lost.

The HERO program is able to close residential PACE deals, [despite objections by the Federal Housing Finance Agency](#) (FHFA), because it requires property owners to meet rigorous Department of Energy lending guidelines. The property owner, for instance, must be current with property taxes and mortgage payments and have at least 10% equity in their home.

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## HERO PROGRAM'S IMPACT ON THE INLAND EMPIRE APPROACHES \$900 MILLION

Innovative financing of energy-efficient, solar and water-saving home improvement projects also adds more than 4,300 jobs in Riverside and San Bernardino counties.



Riverside County

**\$320.5 million**

in HERO projects have been financed in Riverside County since the program began.

Of those projects,

**\$180.9 million**

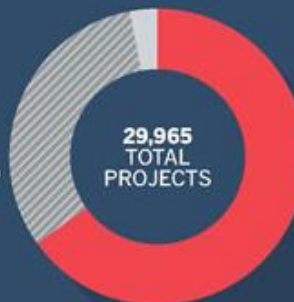
is for energy efficiency improvements

**\$132.5 million**

is for solar energy improvements and

**\$7.8 million**

is for improving water use efficiency in Riverside County homes.



9,801 solar  
19,482 energy efficiency  
682 water

Those savings and reductions have an environmental impact equivalent to:



Planting **15.5 million** trees



Taking **15 million** fewer showers



That's **2.5 billion kWh** in energy savings, **469 million** gallons of water savings, and **665,953 tons** less emissions over the lifetime of the Riverside County projects completed to date!



Doing **12 million** fewer loads of laundry

Taking **127,197 SUVs** off the road for a year

**TOTAL IMPACT ON RIVERSIDE COUNTY**  
**\$555 million** of economic stimulus



**2,721** jobs created



4,499 solar  
13,845 energy efficiency  
401 water

**\$193.6 million** in HERO projects have been financed in San Bernardino County since the program began.

Of those projects,

**\$129.8 million** is for energy efficiency improvements

**\$59.2 million** is for solar energy improvements and

**\$4.6 million** is for improving water use efficiency in San Bernardino County homes.



San Bernardino County

**TOTAL IMPACT ON SAN BERNARDINO COUNTY**  
**\$334.4 million** of economic stimulus



**1,640** jobs created

And that's just the beginning!

# PRESS Enterprise: The HERO Program is a hit with customers and contractors



Cathi Douglas

*Published: Dec. 4, 2015 Updated: 4:15 p.m.*

The HERO Program's innovative financing makes possible a multitude of money-saving and environmentally conscious home upgrades – from solar systems to energy-efficient windows and doors – for Inland Empire homeowners, and increasingly consumers are taking advantage of this inventive and cost-effective means of improving their homes.

HERO offers homeowners benefits that go beyond financing. As Randy Bolin, a partner in Best Value Home Remodeling, explains, "They get peace of mind because they don't pay until they are 100 percent satisfied. They know that the work will be completed to their satisfaction by a contractor who fulfills his obligations."

An industry leader in making homes and communities more energy- and water-efficient, HERO partners with cities and counties to provide financing to homeowners who then repay over time through voluntary annual assessments on their property tax bills. The HERO Program has financed \$1 billion in energy and water conservation home improvements statewide since its inception in 2011.

"The response of our customers to HERO has been wonderful," Bolin says. Because HERO offers financing for a wide range of home efficiency products, they can "address multiple issues at one time and they can have the confidence to take care of potential problems instead of waiting."

Besides solar systems, HERO financing is available for more than 50 different categories of home energy- and water-efficient products and renewable energy systems, including new heating and air conditioning systems, 'cool' roofs, natural gas storage water heaters and tankless water heaters, windows and glass doors, outside irrigation, insulation, window filming, home sealing, lighting control systems and low-flush toilets. More than 45,000 households have financed projects through the program.

"The HERO financing professionals are wonderful to work with for both consumers and contractors," Bolin says. "It allows us to work together to improve homes with a full line of energy-efficient products, like solar systems, roofing, exterior coating, pavers, patios and artificial turf."

In fact, HERO is among the country's fastest-growing energy-efficient financing solutions. It provides competitive pricing standards, products certified as energy or water-efficient, and a network of licensed local contractors. Contractors registered with HERO praise the program for making energy-efficient improvements accessible for homeowners. Homeowners can apply by phone or online and find out in minutes if they qualify.

Bolin's partner in Southern California-based Best Value Home Remodeling is Mark Green, who has spent 35 years in the home remodeling industry. Green says the HERO Program has changed the industry in major ways for both customers and contractors. "The financing gives people the opportunity to do things they never thought they could do," he says. Additionally, homeowners can utilize HERO and still preserve their existing line of credit.

"People don't have to live with leaky roofs and windows anymore," Green says.

"Homeowners have an opportunity to do work on their homes they never would have had, if it wasn't for HERO."



# MORENO VALLEY: Homebuyer files lawsuit over HERO-financed transaction

*Moreno Valley homebuyer files lawsuit over HERO-financed transaction; Realtors say lawsuit illustrates hurdles Realtors, buyers and sellers face at point-of-sale for energy-upgrade assessments.*



## TRANSACTION TIPS

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### For Realtors:

- Check homes closely for energy-related or water-saving upgrades, like drought-tolerant landscaping, solar panels, new windows and doors.
- Ask clients if the upgrades were funded with PACE or HERO-type assessments linked to property taxes, and advise them of the prospect that they may have to pay this off under certain mortgage or refinancing scenarios.
- Check title reports carefully for signs of the assessments, which act as a first lien against the property. They may show up in the tax section with such listings as Mello Roos, and not in the unpaid lien portion of the report.
- Review sales offers carefully to learn about a buyers' prospective funding.

### For Sellers:

- Understand your role to disclose the improvements and how they are funded.
- Be prepared to be asked to pay the balance on the improvement, if the home is refinanced or sold; in some cases, the sellers have been asked to trim their sale price when an undisclosed assessment surfaces at escrow.

Source: Inland region Realtor trade associations

When Esther Kemmerer agreed to pay \$345,000 for a clear title on a house in Moreno Valley in April 2013, she claims she got more than a property with energy-efficient amenities.

Kemmerer got embroiled in a civil lawsuit accusing the seller and others who handled the all-cash sale of failing to disclose and pay off a \$28,675 property tax assessment for HERO-financed windows and doors that could grow to \$59,431 over 20 years.



The case could be the tip of an iceberg, Inland Southern California real estate professionals say.

"We anticipated at some point this would happen," said Paul Herrera, government affairs director for Inland Valleys, California Desert and Inland Gateway associations of Realtors. "We've seen threats where this will happen in the middle of a transaction. It's not a surprise."

"It points out the seriousness of the conflicts that are starting to show up in the marketplace," he said.

Herrera said he's been told of transactions agents and sellers who have had to pony up cash to make the Home Energy Renovation Opportunity, or HERO, Program balance on the property go away. "They're threatened with a lawsuit if the lien is not resolved," he said.

The HERO program is one entity in the Property Assessed Clean Energy, or PACE, program, which began in California in 2001, and has since spread to 31 states. The HERO program was created in the Inland region through the Western Riverside Council of Governments, or WRCOG, in December 2011 and was intended to give homeowners an affordable way to finance energy-efficient products, lower their utility bills and increase the value of their home.

Costs are written into the property tax bills as an added assessment. Payments can stretch out for up to 20 years. The HERO loan is recorded on the property as a lien in the first position.

Because the tax lien is in the No. 1 position, it takes priority in lending situations. Few lenders accept a secondary position – so, in many cases, the HERO assessment has to be paid off or the price of the home has to be lowered to close a sale or refinance a mortgage. The Federal Housing Finance Agency prohibits Fannie Mae and Freddie Mac from buying mortgages or notes with PACE-type liens.

John Paul McNeill, chief executive with Renovate America, the San Diego firm retained by WRCOG to administer the HERO program, said Wednesday, March 4, he believes the program is positive and has helped fund over 23,000 residential projects across hundreds of communities in California.

Renovate America has financed more than \$500 million worth of projects and created thousands of jobs, he said. McNeill said he was unaware of the lawsuit, and his company became aware of Realtors' concerns only a few months ago.

"For me, the (HERO) assessments are 100 percent disclosed," he said.

Barbara Spoonhour, the WRCOG administrator of the HERO program, said the HERO assessment is supposed to show up when a title search is done. However, Herrera said it showed up in a place no one expected, so underlying documents had to be requested to get a true picture of what was going on.

"It got missed by veterans, agents, brokers, lenders – folks in escrow," he said. "It's also appearing on a tax bill, and not everyone was generating every portion of the tax bill for these reports."

To clear up the confusion, Renovate America set up a hot line for Realtors to call to sort out questions. Realtors and company officials have been meeting monthly. And there have been discussions with title companies on the best spot to disclose the assessment in a preliminary report.

Gene Wunderlich, government affairs director of Southwest Riverside County Association of Realtors, said this interaction is important because he's been fielding calls daily from Realtors with questions as more homeowners make moves to sell.

"The biggest, single problem is that Fannie and Freddie will not underwrite these loans, and they control about 90 percent of the resale market now," Wunderlich said.

Renovate America has made it clear in documents that are provided to homebuyers and to Realtors that documents that a HERO assessment may have to be paid if a Fannie Mae, Freddie Mac conforming loan is used in a sales transaction, McNeill said.

It works as if the improvements had been funded with a line-of-credit or a home equity loan, he added.

"It's a two-way street," Herrera said, acknowledging that Realtors need to be proactive.

For starters, Herrera said all parties have to check for recent work to a property and ask pointed questions about improvements that were financed at the front end of a transaction. Sellers don't always disclose the assessment, as some say they've been led to believe the lien travels with the house.

"Don't assume it will be found in a title search, and you will spot it, because we know it's been missed," he said. "If the homeseller said they paid for the windows, find out how those windows were paid."

A trial conference on the Kemmerer case is set for May 27.

**Contact the writer:** 951-368-9423 or [dgruszecki@pe.com](mailto:dgruszecki@pe.com)

# Press Enterprise: Riverside County DA investigating how contractors pitch HERO program

*A real estate fraud investigator wants to determine if contractors are properly informing consumers who install solar panels and make other "green" improvements.*



BY DEBRA GRUSZECKI / STAFF WRITER

*Published: June 3, 2015 Updated: June 12, 2015 4:43 p.m.*

## ABOUT THE INVESTIGATOR

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Raymond Ramirez joined the Riverside County District Attorney's Office in 1999.

Previously, he worked for Ernst & Young's tax division in Los Angeles and for a private firm in business litigation.

He joined the real estate task fraud unit in 2006.

He was named special prosecutor of the year in 2010 for work in real estate fraud prosecution.

## PREVIOUSLY REPORTED

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[Homebuyer files lawsuit over HERO-financed transaction](#)  
[Realtors warn homebuyers about solar financing program](#)

Riverside County Deputy District Attorney Raymond Ramirez on Wednesday revealed an investigation is underway over the way consumers are being sold energy-efficient products through the HERO program.

Ramirez confirmed the probe during a forum hosted by the Inland Valleys Association of Realtors.

Ramirez, a member of the Riverside County District Attorney's Office's real estate fraud unit since 2006, said the district attorney has received complaints, and he will be looking into the way the HERO program has been pitched to consumers by contractors.

"I do have a reputation for going down rabbit holes," Ramirez said in a crowded IVAR meeting room. "This may be one of those times."

He said he wants to determine if consumers are being truly informed about what they're getting into.

The Home Energy Renovation Opportunity, or HERO, program was launched by the Western Riverside Council of Governments, or WRCOG. It allows a homeowner to install "green" improvements at low out-of-pocket costs, but with a payment program attached to a homeowner's property tax bill.

The HERO loan can be a blessing to homeowners because so little is required at the point of installation. The products can lower utility payments and increase the value of the home.

But the loan takes a first-lien position, meaning it has to be paid first if the property is sold or refinanced. That first position is such a sticking point, the Federal Housing Finance Agency prohibits Fannie Mae and Freddie Mac from buying mortgages or notes with these types of liens.

It's complicated home sale and refinancing deals, particularly when lenders refuse to accept a secondary position and require the HERO assessment to be paid off. Property owners have told Realtors that they were led to believe the loan stayed with the house when it was sold or refinanced.

Officials with Renovate America, the San Diego company retained by WRCOG to manage the HERO program, told the audience of about 150 people that the homeowner is asked to sign paperwork that discloses clearly that the loan may have to be paid in the first-lien position.

How clearly the first-lien requirement is laid out in documents is at the heart of the issue.

Warren Diven, an attorney for WRCOG who volunteered to be part of the forum, gave a review on law that makes the HERO program legal. And while he confirmed the ban, he said the FHFA has no direct regulatory authority over state or local government. This program is legal under federal law, he said.

Diven urged Realtors to join WRCOG in an effort to convince the FHFA to lift its ban.

A Realtor in the audience said he supports any action to create full disclosure for property owners. That disclosure needs to be set in large, 40-point type, he told Diven.

"There seems to be a disconnect to the end result," Ruben Hernandez, of EGA Homes, said.

Renovate America officials said contractors who are authorized by HERO to sell the products do get rigorous training, and must be registered. They have to be bonded and insured.

# Press Enterprise: Riverside County DA investigating how contractors pitch HERO program

*A real estate fraud investigator wants to determine if contractors are properly informing consumers who install solar panels and make other "green" improvements.*



**BY DEBRA GRUSZECKI / STAFF WRITER**

*Published: June 3, 2015 Updated: June 12, 2015 4:43 p.m.*

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Raymond Ramirez joined the Riverside County District Attorney's Office in 1999.

Previously, he worked for Ernst & Young's tax division in Los Angeles and for a private firm in business litigation.

He joined the real estate task fraud unit in 2006.

He was named special prosecutor of the year in 2010 for work in real estate fraud prosecution.

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Riverside County Deputy District Attorney Raymond Ramirez on Wednesday revealed an investigation is underway over the way consumers are being sold energy-efficient products through the HERO program.

Ramirez confirmed the probe during a forum hosted by the Inland Valleys Association of Realtors.

Ramirez, a member of the Riverside County District Attorney's Office's real estate fraud unit since 2006, said the district attorney has received complaints, and he will be looking into the way the HERO program has been pitched to consumers by contractors.

"I do have a reputation for going down rabbit holes," Ramirez said in a crowded IVAR meeting room. "This may be one of those times."

He said he wants to determine if consumers are being truly informed about what they're getting into.

The Home Energy Renovation Opportunity, or HERO, program was launched by the Western Riverside Council of Governments, or WRCOG. It allows a homeowner to install "green" improvements at low out-of-pocket costs, but with a payment program attached to a homeowner's property tax bill.

The HERO loan can be a blessing to homeowners because so little is required at the point of installation. The products can lower utility payments and increase the value of the home.

But the loan takes a first-lien position, meaning it has to be paid first if the property is sold or refinanced. That first position is such a sticking point, the Federal Housing Finance Agency prohibits Fannie Mae and Freddie Mac from buying mortgages or notes with these types of liens.

It's complicated home sale and refinancing deals, particularly when lenders refuse to accept a secondary position and require the HERO assessment to be paid off. Property owners have told Realtors that they were led to believe the loan stayed with the house when it was sold or refinanced.

Officials with Renovate America, the San Diego company retained by WRCOG to manage the HERO program, told the audience of about 150 people that the homeowner is asked to sign paperwork that discloses clearly that the loan may have to be paid in the first-lien position.

How clearly the first-lien requirement is laid out in documents is at the heart of the issue.

Warren Diven, an attorney for WRCOG who volunteered to be part of the forum, gave a review on law that makes the HERO program legal. And while he confirmed the ban, he said the FHFA has no direct regulatory authority over state or local government. This program is legal under federal law, he said.

Diven urged Realtors to join WRCOG in an effort to convince the FHFA to lift its ban.

A Realtor in the audience said he supports any action to create full disclosure for property owners. That disclosure needs to be set in large, 40-point type, he told Diven.



"There seems to be a disconnect to the end result," Ruben Hernandez, of EGA Homes, said.

Renovate America officials said contractors who are authorized by HERO to sell the products do get rigorous training, and must be registered. They have to be bonded and insured.