

Solar / Energy Improvements Job Aid

Solar / Energy Improvement collected through tax bill (HERO / PACE)

Certain solar / energy improvements are made by localities to finance residential energy improvement and are generally repaid through the homeowner's real estate tax bill. This type of financing (commonly referred to as **PACE / HERO**) typically has 1st lien priority and is ineligible.

If the property tax bill references PACE / HERO or the prelim includes a HERO-related exception, the following is required:

1 st Lien	Requirement (PACE / HERO)
<p>Conventional</p>	<p>Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.</p> <p>Properties with an outstanding PACE / HERO loan are ineligible unless the terms of the PACE / HERO loan program does not provide for lien priority over first mortgage liens.</p> <p>If the PACE / HERO loan is structured as a subordinate lien or unsecured loan, the first mortgage loan may be underwritten to Fannie Mae's standard guidelines.</p> <p>However, for PACE / HERO loans originated prior to July 6, 2010, Fannie Mae waives the uniform security instrument prohibition against a PACE / HERO loan with lien priority if the corresponding mortgage loan was purchased by Fannie Mae before July 6, 2010.</p> <p>For a PACE / HERO loan originated on or after July 6, 2010, evidence PACE / HERO loan paid in full at or prior to closing is required.</p>
<p>FHA</p>	<p>HERO (PACE) Obligation Already in Place</p> <p><u>Purchase</u></p> <ul style="list-style-type: none"> • Properties encumbered with HERO (PACE) obligations are not eligible for FHA insuring. If the property has a HERO (PACE) obligation it must be paid in full prior to or at closing. <p><u>Refinance</u></p> <ul style="list-style-type: none"> • HERO (PACE) obligations that are an existing debt must be paid off and can be done through closing using <ul style="list-style-type: none"> ○ Rate and Term Refinance where borrower is paying off 1st lien and HERO (PACE) obligation; or ○ Cash Out Refinance transactions <p>NOTE: Must obtain from the county the correct tax information for the tax amount after payoff to ensure loans are impounded correctly.</p>
<p>VA</p>	<p>HERO (PACE) Obligation Already in Place</p> <p>Properties which will remain encumbered with a PACE obligation may be eligible for VA insured mortgage financing, provided that the mortgagee determines that the following requirements have been met:</p> <ul style="list-style-type: none"> • Under the laws of the state where the property is located, the PACE obligation is collected and secured by the creditor in the same manner as a special assessment against the property;

<p>VA (cont.)</p>	<ul style="list-style-type: none"> • The property may only become subject to an enforceable claim (i.e., a lien) that is superior to the VA insured 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 VA insured mortgage for the full outstanding PACE obligation at any time (i.e., through acceleration of the full obligation). However, a notice of lien for the full PACE obligation 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 obligation that could require the 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 obligation on a property is readily apparent to mortgagees, appraisers, borrowers and other parties to a VA insured mortgage transaction in the public records and must show the obligation amount, the expiration date and cause of the expiration of the assessment, and in no case may default accelerate the expiration date and; • In the event of the 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. <ul style="list-style-type: none"> • Borrower(s) must sign HERO Program Acknowledgement Form <p>Appraisal Requirements</p> <ul style="list-style-type: none"> • Where energy and other PACE-allowed improvements have been made to the property through a PACE program, and the PACE obligation will remain outstanding, the appraiser must analyze and report the impact on the value of the property, whether positive or negative, of the PACE-related improvements and any additional obligation (i.e., the PACE special assessment).
<p>1st Lien</p>	<p>Solar / Energy Improvements Leased, PPA, or Financed (Owned or Leased)</p>
<p>Fannie Mae</p>	<p>If the borrower is or will be the owner of the solar / energy improvements at closing, (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage) use standard eligibility requirements for appraisal, insurance, title, etc.</p> <p>When financing is involved,</p> <ul style="list-style-type: none"> • Determine the ownership and any financing structure of the subject property’s solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, evaluate the borrower’s credit report for solar-related debt and obtain a copy of all related documentation for the loan. • Review the title report to determine if the related debt is reflected in the land records associated with the subject property. • If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless a UCC “personal property” search that confirms the solar panels are not claimed as collateral by any non-mortgage lender. <p>Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a “fixture filing” must be filed in the office identified in the</p>

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relevant state’s adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property’s value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with Energy Efficiency Improvements in [B4-1.3-05](#).

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels:

If the solar panels are...	Then...
Financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records	<ul style="list-style-type: none"> • Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan; • Include the debt obligation in the DTI ratio calculation; • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and • Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing* is of record in the land records. <p>Note: If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated.</p>
If the solar panels are...	Then...
Financed and collateralized – the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report	<ul style="list-style-type: none"> • Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statements, related promissory note or related security agreement); • Include the debt obligation in the DTI ratio calculation; • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; • Not include the panels in the LTV ratio calculation; and • Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

Fannie Mae (cont.)	<p>*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contain both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described texture has priority over the lien of a subsequently recorded mortgage.</p> <p>If the solar / energy improvements are leased from or owned by a third party under a power purchase agreement or other similar arrangement, refer to Fannie Mae Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement</p>
Freddie Mac	<p><u>Effective March 2, 2021: See LPA Properties with Solar Panels Job Aid</u></p> <p><u>Effective prior to March 2, 2021:</u></p> <p>If the borrower is or will be the owner of the solar / energy improvements at closing, (free and clear) use standard eligibility requirements for appraisal, insurance, title, etc.</p> <p>If the borrower is or will be the owner of the solar / energy improvements at closing, (financed) the following requirements for appraisal and title apply:</p> <ul style="list-style-type: none"> • Solar system must be owned to be included in appraised value; and • Solar related liens, if any (including UCC filings) must be removed from title. <p>If the solar / energy improvements are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply:</p> <ul style="list-style-type: none"> • The solar panels may not be included in the appraised value of the property. • The property must maintain access to electrical utilities consistent with community standards; and • The lease agreement, PPA or other similar agreement must provide that: <ul style="list-style-type: none"> ○ The owner of the solar panels agrees to not be a loss payee (or named insured) on the homeowner’s insurance policy covering the property; and ○ In the event of foreclosure, the Seller/Service may: <ul style="list-style-type: none"> ▪ Terminate the lease agreement or PPA and require the owner of the equipment to remove the panels and supporting equipment ▪ Become the beneficiary of the Borrower’s lease agreement or PPA without incurring a transfer fee; or ▪ Enter into a new lease agreement or PPA with the owner of the equipment under terms no less favorable than the existing lease agreement or PPA • The lease payment must be included in the debt-to-income (DTI) ratio • Must provide a copy of the lease agreement • Appraiser must identify the energy-efficient features <ul style="list-style-type: none"> ○ If energy-efficient features of a property, whether the subject property or comparable sales, affect value or marketability, the appraiser must make appropriate adjustments to reflect the market reaction to the energy-efficient features.
Freddie Mac	

(cont.)	<ul style="list-style-type: none"> • Solar related liens (if any) must be subordinated.
FHA	<p>If the borrower is or will be the owner of the solar / energy improvements at closing (free and clear), use standard eligibility requirements for appraisal, insurance, title, etc.</p> <p>If the borrower is or will be the owner of the solar / energy improvements at closing, (financed) the following requirements for appraisal and title apply:</p> <ul style="list-style-type: none"> • Solar system must be owned to be included in appraised value; and • Solar related liens, if any (including UCC filings) must be removed from title. <p>If the solar / energy improvements are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply:</p> <ul style="list-style-type: none"> • Cannot be included in appraised value. • If lease/PPA is pre-paid and included in sales contract it must be treated as a sales concession. • Lease agreement/PPA should be free of restrictions that prevent the borrower from freely transferring the property <ul style="list-style-type: none"> ○ If there are restrictions, they must automatically terminate if title to the mortgaged property is transferred by foreclosure or deed- in-lieu of foreclosure or assignment of insured 1st lien to HUD. • Must not prevent borrower from freely transferring the property. agreement must not allow or require any of the following if transferred by the borrower: <ul style="list-style-type: none"> ○ Void, or voidable by a third party; ○ Right of first refusal, preemptive rights or options related to borrower's efforts to convey; ○ Terminations of all or part of the borrower's interest; ○ Subject to consent of a third party; ○ Subject to limits on the amount of sales proceeds retained by the borrower; ○ Grounds for acceleration or increasing the interest rate on the insured mortgage. <p>Note: Any questions on the above requirements are to be reviewed with Management.</p>
VA	<ul style="list-style-type: none"> • Borrower is allowed to take over the solar lease agreement • Lease agreement must be subordinated to VA's first lien • Must provide a copy of the lease agreement and provide evidence the borrower qualifies for the lease • The lease payment must be included in the debt-to-income (DTI) ratio • Allowed to reduce maintenance if ML Mortgage can determine a calculation • If showing as lien on title must be subordinated. • Value cannot be given if the solar / energy improvements are leased from or owned by a third party under a power purchase agreement or other similar arrangement.