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VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY

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California Department of Business Oversight
1515 K Street, Suite 200
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The Honorable Jan Lynn Owen, Commissioner
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Re: Industry Response to the California Department of Business Oversight's Proposed PACE Rulemaking Implementation

Dear Commissioner Owen, et al.:

On January 5, 2018 Renew Financial, Renovate America, and Ygrene Energy Fund (the "Administrators") provided initial responses to the California Department of Business Oversight's ("DBO") invitation for comments on proposed rulemaking implementation of AB-1284 and licensure of PACE programs under the California Financing Law ("CFL"). Since then the Administrators have worked to develop a joint perspective on the issues that are critical to the viability of PACE programs and the most important for DBO to consider in its upcoming rulemaking process. Those issues include: (1) Underwriting; (2) PACE Solicitors and PACE Solicitor Agents; (3) Registry for PACE Assessments; and (4) Licensure Application and Administration.

The Administrators are strong supporters of AB-1284 and SB-242. The DBO's rules will create much needed uniformity and certainty across the market in California. To that end, *what* DBO chooses from AB-1284 and SB-242 to be subject to rulemaking, and *how* DBO calibrates these rules will have a determinative impact on the future of PACE and its ability to fulfill the public policy goals of sustainability, efficiency, conservation, and resiliency as established by the California Legislature and the communities that the Administrators serve. This is true now more than ever as PACE financing is in an active period of transition and maturation.

As DBO considers its rulemaking package, it is imperative that it account for the specific public policy purpose PACE financing was created to serve, as well as the unique nature of PACE financing and the features that make it an attractive option to both homeowners and contractors. It is also important that DBO consider the broader dynamics of the home improvement financing market in which PACE operates and the attributes of PACE financing relative to the spectrum of financing options available to the typical home improvement customer. Otherwise, DBO may inadvertently disadvantage the use of this unique form of financing such that contractors will not elect to participate in PACE among the myriad financing options available to them in the market.

Below is brief background on PACE programs and attached for DBO's reference is a recent study conducted by DBRS, a nationally recognized statistical rating organization, that analyzed the performance of PACE assessments to date. The study shows that delinquency rates for residential PACE properties in California are "very low" and consistently below the overall property tax delinquency rates for all homeowners; PACE, therefore, is both meeting individual demand and overall policy objectives, while doing so in a safe and secure manner.[1] The implementation of AB-1284 and SB-242 requirements will further solidify that position.

We appreciate DBO's consideration and look forward to continuing to work with DBO in the coming months as it develops its rules for PACE programs.

PACE Program Background for DBO Rulemaking

PACE is a Distinct Public Policy Vehicle

PACE is an innovative local government program that empowers homeowners to make energy, efficiency and resiliency improvements to their homes and pay for the improvements over a term of up to 30 years, at a competitive, fixed interest rate through an additional, voluntary line item on their property taxes. Since its introduction in California over a decade ago, program administrators have financed more than $4 billion in home improvement projects and enabled more than 180,000 homeowners to make such investments in their homes. In addition to promoting energy and water efficiency and serving as a tool for local economic development, PACE was created to expand access to the benefits of energy and water efficiency to all California homeowners.

PACE in the Home Improvement Financing Marketplace

PACE is one of many forms of financing offered in the context of the broader home improvement market. Market data suggest that up to 75 percent of homeowners undertaking home improvement projects above $2,500 finance the cost of the improvements.[2] Once faced with the need to finance, the homeowner has three main options: traditional secured credit, unsecured credit, or PACE financing.

With secured credit, financing options include second mortgages and home equity lines of credit. In both instances, the rates are comparable to PACE. However, approvals take weeks,[3] with the most competitive rates only made available to high FICO borrowers (credit scores above 740).[4]

With unsecured credit, financing options include personal home improvement loans and credit cards. For personal home improvement loans, interest rates are typically higher than the interest rates associated with PACE financing, and feature terms rarely exceeding 12 years. For credit cards, interest rates are typically significantly higher. These products are underwritten primarily based on credit score, and the application process is fast, with immediate decisions provided to applicants. As such,

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[1] https://www.dbrs.com/research/323286/dbrs-publishes-commentary-on-residential-pace-delinquency-trends
[2] https://www.homeadvisor.com/r/financing-home-improvement-projects/#ixzz59HZbNZQY
[3] http://homeguides.sfgate.com/long-need-wait-home-equity-line-88547.html
[4] https://www.investopedia.com/terms/s/superprime-credit.asp

they are most conducive to a point-of-sale transaction, the approval speed of unsecured options make them the most common alternative to PACE in the home improvement finance market.

In Summary

Given the financing choices available to homeowners in need of repairs, PACE is an important option and often a better choice for homeowners. PACE offers the combination of affordable payments (which are a function of interest rates and long payment terms), transaction processing that meets the needs of homeowners and their contractors, and comprehensive consumer protections covering both the financing and the project itself – from contractor oversight to underwriting to certain disclosures – that are not required and rarely provided in unsecured lending.

The new underwriting requirements contained in AB-1284 will have the effect of slowing down the application and decision process. While the industry supports these requirements in California, it is critical to get the balance right: process requirements should not become so onerous as to drive contractors and homeowners away from PACE to financing options with fewer relevant consumer protections, higher interest rates and payments, and a lack of public policy benefits.

I. Underwriting

A. Underwriting Provisions are Deliberately Prescriptive and Do Not Require Modification or Expansion.

As set forth in AB-1284, Section 22684 (which enumerates specific underwriting criteria), Section 22685 (which prescribes the usage of automated valuation models), and Section 22687 (which identifies what information must be considered to determine the ability to pay) comprise the underwriting provisions applicable to PACE financing (the "Underwriting Provisions"). The Underwriting Provisions are deliberately prescriptive, which obviates the ability to add or expand any requirements not specifically addressed within the Underwriting Provisions.

For example, Section 22684 contains a list of specific criteria that must be satisfied. One of the enumerated criteria states that "[t]he total PACE assessments and the mortgage-related debt on the property subject to the PACE assessment will not exceed 97 percent of the market value of the property. . . ." Any interpretation that would modify the percentage to be any other value other than 97 percent would be inconsistent with the plain language of the statute, which undertakes to establish a fixed number of predetermined underwriting criteria.

Some stakeholders have requested that DBO use its rulemaking authority to modify or amend – rather than clarify – AB-1284 with respect to the Underwriting Provisions. These suggestions include limiting the ability of program administrators to use AVMs in cases where the CLTV ratio is above a specified threshold, and requiring the market value to be disclosed to property owners three days prior to signing their financing documents (which would effectively result in a waiting period not authorized by statute).

The Administrators believe that modifications or amendments through rulemaking would not be consistent with the prescriptive nature of the Underwriting Provisions. However, as discussed in the section below, the Administrators believe that some of the provisions in the statutory language are sufficiently unclear as to require regulatory clarification, to enable program administrators to comply.

B. **Program Administrators Are Not Required to Re-Underwrite Applications, or to Underwrite Applications Using Information That Does Not Reflect the Point of Application.**

Section 22684 of AB-1284 provides that "[a] program administrator shall not submit, present, or otherwise approve for recordation by a public agency an assessment contract unless [prescribed underwriting] criteria are satisfied . . . ." Similarly, Section 22687 provides that "[a] program administrator shall determine, prior to funding, and recordation by a public agency of the assessment contract that the property owner has a reasonable ability to pay the annual payment obligations for the PACE assessment based on the property owner income, assets, and current debt obligations."

The Administrators interpret these provisions to permit a program administrator to make determinations as to whether underwriting requirements have been satisfied up until such time that the program administrator causes the corresponding assessment contract to be submitted, presented or otherwise approved for recordation. However, the Administrators believe that these determinations should be based on information that reflects the status of the property owner and the subject property as of the time the financing application is received, not as of any later point in time. A program administrator is not required to re-underwrite applications throughout the application process, or to underwrite applications using information that does not reflect the status of the property owner or the subject property as of the point the financing application is received.

For example, a program administrator should obtain a copy of an applicant's credit report that reflects the credit history of the applicant as of the time the applicant's application is received, but the program administrator is not required to obtain an additional credit report reflecting the applicant's credit history at or near the time of recordation. Similarly, a program administrator should obtain a valuation of the subject property that reflects the valuation of the property as of the time the application is received, but the program administrator should not be required to obtain an additional valuation at or near the time of recordation. This interpretation is consistent with how financing applications are typically evaluated in the context of other CFL-licensed activities, and provides for the uniform treatment of all financing applications.

C. **"Confidence Score" Should be Clarified to Mean a Designation that Reflects Statistical Reliability, and Should Include the Forecast Standard Deviation.**

Section 22685 of AB-1284 provides that "[t]he PACE program shall utilize the estimated value with the highest confidence score for a property."

Although AB-1284 requires program administrators to derive the market value of properties by using automated valuation models ("AVMs") with confidence scores, the term "confidence score" is not defined. AVM vendors typically attach proprietary "confidence scores" to the values provided by their AVMs. These confidence scores often take into account a variety of proprietary factors unique to each vendor, making it impracticable to determine the highest confidence score across AVM vendors. Therefore, the Administrators request that DBO clarify that "confidence score," as used in Section 22685(a)(1)(D), means a designation that reflects the statistical reliability of a given value provided by an AVM.

The most consistent measure of the statistical reliability of values provided by AVMs is the forecast standard deviation ("FSD"), which is not unique to each AVM vendor and can be compared across AVMs. The Administrators believe it is appropriate to use the FSD associated with values provided by

AVMs from different vendors to determine which value is the most reliable. Therefore, the Administrators request that DBO clarify that value with the lowest FSD may be considered the value with the highest "confidence score."

D. Program Administrators May Rely Upon Property Owner Attestations to Satisfy Underwriting Criteria in Circumstances Where No Commercially Reasonable and Available Verification Methods Exist.

Section 22684(l) of AB-1284 requires program administrators to "use *commercially reasonable and available* methods to verify" that underwriting criteria have been satisfied (emphasis added). The Administrators interpret this provision to require program administrators to verify underwriting criteria if there is a commercially reasonable and available method that can be used to perform such verification. Conversely, if no commercially reasonable method is commercially available to verify a given underwriting criterion, or if commercially available methods to verify a given underwriting criterion are not commercially reasonable, program administrators may be unable to perform such verification. In such cases, program administrators should be able to rely upon attestations from financing applicants to satisfy the requirements.

AB-1284 and SB-242 both recognize that verification methods are not commercially reasonable and available in some cases, and therefore require program administrators to ask financing applicants to confirm that certain underwriting criteria have been satisfied. For example, AB-1284 and SB-242 require program administrators to ask property owners to disclose all other PACE assessments they have sought, authorized, or obtained. See Cal. Fin. Code § 22684(k); Cal. Sts. & High. Code § 5913(a)(2)(J). Similarly, AB-1284 requires program administrators to ask property owners to disclose "whether there has been no more than one late payment of property taxes on the property for the previous three years or since the current owner acquired the property, whichever period is shorter." Cal. Fin. Code § 22684(a). As a result, the Administrators believe that program administrators should be able to rely upon attestations of property owners with respect to these underwriting criteria.

Moreover, Section 22684(g) of AB-1284 contains the following underwriting criterion: "[t]he measures to be installed pursuant to the assessment contract are eligible under the terms of the applicable PACE program." Some stakeholders have suggested that program administrators should be required to verify the eligibility of measures by performing on-site inspections for each project financed by an assessment contract, because property owners may not be adequately informed as to which measures are eligible. This is not a commercially reasonable and commercially available method of verification, and would be cost-prohibitive for any program administrator. As a result, the Administrators believe that program administrators should be able to rely upon attestations from property owners as to what measures are going to be or have been installed to verify whether such measures are eligible under the terms of the PACE program. This approach addresses the concerns raised by stakeholders referred to above, because property owners are not required to know which measures are eligible under the terms of a given PACE program, but instead are required to confirm the measures that have been installed.

When evaluating the provisions of Section 22684, the Administrators urge DBO to consider the potential economic impact on program administrators in evaluating whether verification methods are "commercially reasonable" for each underwriting criterion contained within Section 22684, in accordance with established legal precedent in California. See Citri-Lite Co. v. Cott Beverages, Inc., 721 F. Supp. 2d 912, 926 (E.D. Cal. 2010) (recognizing the principle that, under California law, the term "commercially reasonable efforts" permits a performing party to consider its economic interests in performing its obligations). Moreover, Section 22684 further qualifies the verification methods as "commercially [] available," which requires additional deference to program administrators to avoid undue burden in selecting verification methods, and demonstrates that program administrators need not create new verification methods, but need only use methods that are commercially available.

E. The List of Supporting Income Documentation for the Ability to Pay Determination is an Exemplary List, Not an Exhaustive List.

Section 22687(b)(1) of AB-1284 provides a non-exhaustive, non-operative list of examples of records that program administrators may use to verify the property owner's income or assets. By providing examples rather than prescribing what records may be used, the statute plainly permits program administrators to use other forms of records. Various stakeholders have objected to this plain language and requested that DBO reinterpret this provision to be a list of required forms of documentation, and to expand the provision to include additional purported requirements. However, the Administrators believe the exemplary list contained within this provision should be interpreted in accordance with the plain language and should not be modified or expanded through rulemaking.

F. Residual Income is the Exclusive Analysis for Determining a Property Owner's Payment Ability and Cannot be Expanded to Include a Debt-to-Income Ratio Analysis.

Section 22687(d) of AB-1284 requires a program administrator to determine whether the property owner's income is sufficient to meet the PACE payment, any mortgage payments, all existing debts and obligations, and basic household living expenses. This section established a requirement for a program administrator to specifically conduct a *residual income* analysis to determine the property owner's ability to pay the annual PACE obligation. The statute was deliberate in prescribing a residual income analysis for determining payment ability, not other methods such as using debt-to-income ratio.

Some stakeholders have suggested that DBO require program administrators perform both a residual income analysis *and* use a debt-to-income ratio. However, the statute does not provide for an expansion of this requirement. Moreover, stakeholders cite the Consumer Financial Protection Bureau and Veterans Affairs regulations to support the addition of a debt-to-income calculation requirement as these regulations provide for lenders to use both debt-to-income and residual income in their underwriting, under certain circumstances. However, these regulations were created for mortgage loans and not PACE assessments and if applied to PACE they would unnecessarily restrict access to PACE financing.

A PACE assessment, which in California is roughly one tenth of the size of a mortgage on average, functions in the home improvement financing market, not the mortgage market, so subjecting PACE to mortgage standards is inappropriate. As part of the legislative process, for AB-1284, DBO recognized the uniqueness of PACE and the importance of its public policy purpose, and supported the creation of an entirely new statutory framework for PACE instead of including PACE in existing CFL provisions governing traditional forms of consumer and mortgage credit.

G. **<u>"Reasonable Estimation" of Basic Living Expenses May be Based on Data Sourced from Federal Agencies and Need Not be Based on Data Sourced from Property Owners</u>.**

Section 22684(d)(4) of AB-1284 provides further specification and clarity for the required residual income analysis. The section requires that a program administrator determine that a property owner has "[s]ufficient residual income to meet basic household living expenses, defined as expected expenses which *may* be variable based on circumstances and consumption patterns of the household. The program administrator may make a *reasonable estimation* of basic living expenses based on the number of persons in the household" (emphasis added). The section also includes an exemplary list of basic living expenses, such as food, other necessary household consumables, transportation costs, and utilities expenses.

The Administrators believe that estimations based on data sourced from federal agencies should be deemed reasonable estimations of living expenses. Some stakeholders have suggested that DBO compel program administrators to rely upon information provided by individual property owners instead of relying on reasonable estimations. This is inconsistent with the plain language of AB-1284, which specifically permits estimations. The Administrators believe that DBO should reject any suggestions to restrict the ability of program administrators to rely upon reasonable estimations.

H. **<u>Responsibility for the "Difference" Between the Ability to Pay Determination and the Actual Amount Financed Should Be Interpreted Consistently with Section 22716 and Should Reflect Principles Applicable to the Ability to Pay</u>.**

Section 22687(g) of AB-1284 provides that "[i]f there is a difference between the determination of the property owner's ability to pay the annual PACE obligations and the actual amount financed for the property owner, and the property owner is obligated on the underlying home improvement contract, the program administrator shall be responsible for that difference. This subdivision does not apply in a case of intentional misrepresentation by the property owner."

Section 22687(g) addresses scenarios in which a program administrator provides financing to a property owner in an amount greater than the amount derived from the program administrator's determination of the property owner's ability to pay. These scenarios are most likely to occur in circumstances where the program administrator elects to provide financing prior to undertaking the ability to pay determination, and the amount financed is ultimately greater than the amount derived from the program administrator's ability to pay determination. In such scenarios, the program administrator would be "responsible for that difference." However, at that stage, because the "difference" would not yet be reflected in a recorded assessment contract, the program administrator would be able to correct the amount financed prior to recordation, eliminating any risk of originating an assessment that exceeded the program administrator's ability to pay determination.

Program administrators are able to avoid scenarios where they would become responsible for any differential amounts by undertaking the ability to pay determination prior to providing financing to the property owner, so the actual amount financed does not exceed the amount derived from the ability to pay determination. However, if a program administrator does not follow this protocol and the actual amount financed exceeds the ability to pay amount, AB-1284 does not specify the manner in which the program administrator discharges its responsibility for the "difference."

Any rulemaking that clarifies the above provision must take into consideration Section 22716 of AB-1284, which provides, in relevant part, that "[t]his division does not affect the validity and enforceability of any PACE assessment contracts entered into or bonds issued and secured by such contracts." Therefore, any responsibility borne by program administrators for the "difference" cannot affect the validity and enforceability of any PACE assessment contracts or related bonds. Moreover, the Administrators believe that any determination of responsibility for the "difference" should take into account factors such as whether the "difference" was *de minimis* in amount (or as a percentage of the assessment principal amount) or whether the "difference" resulted from a bona fide error.

Some stakeholders have suggested that DBO require the modification or refinancing of assessment contracts in cases where there is a "difference." They alternatively suggest that DBO establish a fund maintained by "PACE taxing authorities" to be used to offset the difference between the assessment contract payment and an adjusted payment amount that reflects the ability to pay analysis. These recommendations fundamentally conflict with two core components of PACE – the municipal bond and tax collection processes, which are governed by existing statute. The Administrators strongly oppose the imposition of these requirements. However, the Administrators welcome the opportunity to work with DBO to clarify the "difference" provision in a way that balances the policy interests of Section 22687(g).

I. The Application of Ability to Pay Criteria to Commercial Transactions (i.e., Nonresidential PACE Transactions) Should be Clarified.

Section 22018 of AB-1284 defines a program administrator as a "person administering a PACE program on behalf of, and with the written consent of, a public agency. . . . The person does not administer a PACE program that provides financing for the installation of efficiency improvements on real property with a market value of less than one million dollars ($1,000,000)." This provision exempts commercial PACE administrators from the definition of "program administrator" and, as a result, from all AB-1284 requirements that apply to residential PACE transactions. However, some commercial PACE administrators also administer residential PACE programs or finance commercial projects with a market value of less than one million dollars ($1,000,000), and therefore satisfy the definition of "program administrator." Therefore, the commercial PACE transactions administered by such program administrators could be interpreted to be subject to the Underwriting Provisions contained within Sections 22684, 22685, and 22687.

To the extent that some or all of the Underwriting Provisions are interpreted to apply to commercial transactions, the Administrators request that DBO clarify that provisions inherently tied to residential PACE transactions would be deemed to be satisfied for commercial PACE transactions, including commercial transactions on properties with a market value of less than one million dollars ($1,000,000). These provisions are oriented toward individual owners of residential properties, and include, among other things, requirements to evaluate the following: (i) monthly housing expenses, (ii) alimony, (iii) child support, and (iv) basic household living expenses. See Cal. Fin. Code §22687(a)(1), (d)(4). Because the inputs sought by these requirements will always be "0" or "null" in commercial settings, the Administrators interpret these provisions as being automatically satisfied.

II. PACE Solicitors and PACE Solicitor Agents

A. Program Administrators' Discretion to Establish and Manage Internal Processes Related to PACE Solicitors and PACE Solicitor Agents Should be Preserved.

Program administrators are under a thorough compliance framework in relation to PACE solicitors and PACE solicitor agents. This framework establishes responsibilities of program administrators with respect to PACE solicitors and PACE solicitor agents and requires a program administrator to establish the following: **(i)** a *process* for enrolling PACE solicitors, which must include **(a)** a written agreement between the program administrator and the PACE solicitor setting forth the obligations of the PACE solicitor and its PACE solicitor agents, and **(b)** a *review* of readily and publicly available information regarding each PACE solicitor, in which the program administrator must determine whether there is **(1)** a clear pattern of consumer complaints about the PACE solicitor regarding dishonesty, misrepresentations, or omissions, **(2)** a high likelihood that the PACE solicitor will solicit assessment contracts in a manner that does not comply with applicable law, **(3)** a clear pattern on the part of the PACE solicitor of failing to timely receive and respond to property owner complaints regarding the PACE solicitor; **(ii)** a *process* for enrolling PACE solicitor agents, which must include a background check of each PACE solicitor agent; **(iii)** a *process* to promote and evaluate the compliance of PACE solicitors and PACE solicitor agents with the requirements of applicable law, which must include **(a)** a risk-based, commercially reasonable *procedure* to monitor and test the compliance of PACE solicitors and PACE solicitor agents, **(b)** a *procedure* to regularly monitor the license or registration status of PACE solicitors and PACE solicitor agents, and **(c)** a periodic *review* of the solicitation activities of PACE solicitors enrolled with the program administrator, to be conducted at least once every two years; **(iv)** a *process* for cancelling the enrollment of PACE solicitors and PACE solicitor agents; **(v)** a training *program* for PACE solicitor agents which requires each PACE solicitor agent to complete six hours of education, and which must address **(a)** PACE programs and assessment contracts, **(b)** PACE disclosures, **(c)** ethics**, (d)** fraud prevention**, (e)** consumer protection, **(f)** nondiscrimination, and **(g)** senior financial abuse; **(vi)** a *process* for notifying DBO of each PACE solicitor and PACE solicitor agent enrolled by the program administrator; **(vii)** a *process* for notifying the commissioner of each enrollment cancellation and withdrawal of a PACE solicitor or a PACE solicitor agent; and **(viii)** *policies* and *procedures* for responding to questions and addressing complaints as soon as reasonably practicable. See Cal. Fin. Code §§ 22680-22683.

This level of accountability demonstrated above, for which DBO strongly advocated during the legislative process, is unprecedented in the home improvement financing industry. Providers of other forms of home improvement financing regulated by DBO have few or no responsibilities with respect to independent home improvement contractors and the agents of independent home improvement contractors who happen to offer the financing they provide.

Although the above requirements are extensive, they are not substantively prescriptive, as they all relate to a program administrator's institution of processes. By focusing on *process* rather than *substance*, these provisions intentionally provide program administrators with the responsibility and discretion to manage their relationships with PACE solicitors and PACE solicitor agents. If DBO prescribes through rulemaking the substance of these processes, or expands the processes beyond the requirements contained within AB-1284, there is a substantial risk that such prescriptions will critically and negatively impact PACE programs by compelling program administrators to devote resources to suboptimal or ineffective processes. The sheer number of requirements contained in AB-1284 will impose a significant resource burden on all program administrators, and a substantive expansion of these requirements will threaten the structural viability of PACE as an instrument of public policy in California.

For the reasons outlined herein, the Administrators believe that the discretion of program administrators to define, develop, and maintain their own processes with respect to PACE solicitors and PACE solicitor agents should be preserved. If a program administrator fails to properly discharge its responsibilities with respect to these processes, DBO is empowered to take action as appropriate.

Additionally, the Administrators urge strong cooperation between DBO and CSLB on the evaluation of the required processes. The Administrators are encouraged that DBO and CSLB intend to execute a Memorandum of Understanding ("MOU") to enable close collaboration. This collaboration is critical because CSLB has preexisting regulatory, licensing and enforcement authority over the home improvement contractors and home improvement salespersons that will be designated as PACE solicitors and PACE solicitor agents.

B. Enrollment and Cancellation of PACE Solicitors and PACE Solicitor Agents Should be Determined by Program Administrators.

Section 22680(a)-(d) of AB-1284 requires program administrators to establish and maintain a process for enrolling PACE solicitors and PACE solicitor agents, and provides a framework for what program administrators must take into consideration as part of this process. Similarly, Section 22680(f) requires program administrators to establish and implement a process for cancelling the enrollment of PACE solicitors and PACE solicitor agents.

As discussed generally in Section III(A) above, the Administrators believe that the discretion of program administrators to define, develop, and maintain their own processes should be preserved. This applies to how and why program administrators enroll and disenroll PACE solicitors and PACE solicitor agents. Some stakeholders have suggested that DBO apply highly rigid additional standards to the enrollment and disenrollment processes. The Administrators are strongly opposed to the imposition of new rigid standards and do not believe they would be effective or practicable. For example, one stakeholder has suggested that DBO force program administrators to disenroll all PACE solicitors that receive two complaints, which would dramatically reduce the number of eligible PACE solicitors and effectively eliminate the viability of PACE.

Section 22682 of AB-1284 requires program administrators to notify DBO of the enrollment, disenrollment, and withdrawal of PACE solicitors and PACE solicitor agents in a manner prescribed by DBO. The Administrators support DBO's development of a process for receiving notifications from program administrators in a manner acceptable to DBO. However, the Administrators believe that the content of such notifications should be limited to information sufficient to identify the PACE solicitor or PACE solicitor agent, and to communicate whether that PACE solicitor or PACE solicitor agent has enrolled, unenrolled, or withdrawn. To provide any additional information would be unduly burdensome for program administrators, given the dynamic nature of the home improvement industry and the large number of PACE solicitors and PACE solicitor agents participating in the PACE industry. This would also be potentially prejudicial to PACE solicitors and PACE solicitor agents, given the public nature of the communications. For example, a program administrator may unenroll a PACE solicitor or PACE solicitor agent for reasons unrelated to compliance considerations, such as resource capacity or preference.

C. DBO and CSLB Should Coordinate to Protect Against Misleading Advertising that is Not Produced or Endorsed by Program Administrators.

Section 22161 of AB-1284 provides that subject persons shall not "[a]dvertise, print, display, publish, distribute, or broadcast, or cause or permit to be advertised, printed, displayed, published, distributed, or broadcast in any manner, any statement or representation with regard to the business subject to the provisions of this division, including the rates, terms, or conditions for making or negotiating loans, that is false, misleading, or deceptive, or that omits material information that is necessary to make the statements not false, misleading, or deceptive, or in the case of a licensee, that refers to the supervision of the business by the state or any department or official of the state."

DBO has asked if there are any "advertising practices that raise consumer protection concerns . . . and [w]hat ways the Department can protect against misleading advertising that is not initiated by a program administrator." The Administrators believe it is important that PACE advertisements not initiated by program administrators do not contain representations that could be construed by the average consumer to mean that PACE programs are free government programs or means-based government assistance programs. The Administrators also believe that it is appropriate for program administrators to implement commercially reasonable controls over the marketing and advertising materials they produce or endorse, and, in accordance with Section 5922 of SB-242, to obtain written agreements from PACE solicitors to act in accordance with applicable advertising and marketing laws and regulations.

Where PACE solicitors produce advertisements that are not produced or endorsed by program administrators, those marketing materials are already subject to oversight by the CSLB. With respect to advertisements created by PACE solicitors, the Administrators believe that DBO should coordinate with CSLB to enhance DBO's overall objective of protecting against misleading advertising not initiated by program administrators.

Some stakeholders have suggested that DBO require that all advertisements, marketing materials, and information about PACE provided to a property owner must be produced by a program administrator, or that DBO require PACE solicitors to submit all advertising and marketing materials for approval prior to use. These suggestions are impractical and fail to appreciate the dynamic nature of the home improvement industry and the role of CSLB in monitoring and overseeing PACE solicitors. If implemented, these requirements would create significant enforceability hurdles and place an impracticable burden on PACE solicitors and program administrators. Moreover, such requirements may even be prohibited under Section 17500.1 of the California Business and Professions Code, which provides that "no . . . state agency . . . shall enact any rule, regulation, or code of professional ethics which shall restrict or prohibit advertising by any commercial or professional person, firm, partnership or corporation which does not violate the provisions of Section 17500 of the Business and Professions Code, or which is not prohibited by other provisions of law."

D. Compensation Provided to Contractors is Limited to Prices Charged to Property Owners for Completed Projects, but Benefits that Do Not Qualify as Things of Material Value Are Not Subject to this Limitation.

As set forth in SB-242, Section 5923(a) provides that "[a] program administrator shall not provide any direct or indirect cash payment or other thing of material value to a contractor or third party in excess of the actual price charged by that contractor or third party to the property owner for the sale and installation of one or more efficiency improvements financed by an assessment contract."

Subject to the training reimbursement exception listed in Section 5923(b)(2), the Administrators interpret Section 5923(a) to prohibit a program administrator from providing compensation to a contractor that exceeds the prices charged by that contractor to property owners for completed home improvement projects financed by the program administrator. The Administrators request that DBO clarify that this prohibition applies to all compensation (whether in the form of direct or indirect cash payments, or other things of material value) regardless of how the compensation is paid (i.e., directly by a program administrator, or indirectly through a program administrator's affiliate or an unaffiliated third party) or how the compensation is characterized (i.e., as a reward for compliance, origination volume, or any other performance metric, whether determined on an aggregate or project-by-project basis). While the Administrators do not believe that DBO should dictate program administrators' compensation structures, the Administrators believe that DBO should clarify that any compensation is inherently limited to the prices charged by contractors to property owners for completed home improvement projects, unless as otherwise permitted by Section 5923(b)(2).

The prohibition within Section 5923(a) expressly excludes benefits that do not constitute things of material value. However, SB-242 does not define a "thing of material value." In the absence of statutory guidance, the Administrators interpret a "thing of material value" as a direct benefit that exceeds one hundred dollars ($100) per recipient per year. Conversely, the Administrators do not consider the following benefits to be things of material value: (i) direct benefits that do not exceed one hundred dollars ($100) per recipient per year, and (ii) incidental benefits.

Although SB-242 does not define a "thing of material value," Section 5923(b)(2) expressly permits program administrators to reimburse training expenses up to one hundred dollars ($100) per training activity. Therefore, the Administrators interpret one hundred dollars ($100) as a reasonable statutory threshold for what qualifies as a "thing of material value." Taking guidance from Section 5923(b)(2), the Administrators believe that direct benefits of up to one hundred dollars ($100) per recipient per year should not be considered a thing of material value, and that program administrators should be able to provide such direct benefits to the employees or agents of contractors, in excess of the prices charged by contractors to property owners for completed home improvement projects. These benefits would not include cash, cash equivalents, or items that may be readily converted into cash (e.g., gift cards or prepaid debit cards), which the Administrators believe should be subject to the same limitations placed on direct and indirect cash payments.

The Administrators do not consider incidental benefits received by contractors, or the employees or agents of contractors, to be things of material value. These benefits are directly related and incidental to participating in a PACE program, and are inherently intangible in nature. Incidental benefits may include, but are not limited to, training and other educational materials, web-based or software-based tools, listings on websites and other directories, and information regarding current and prospective customers (including customer referrals). Because contractor participation is a necessary component of the PACE transaction process, it is critical for program administrators and contractors to be able to freely share information, particularly information regarding current and prospective customers, without such information being considered a thing of material value.

The Administrators request that DBO define a "thing of material value" in a manner consistent with the interpretation outlined above.

E. **Training May Be Provided by Third Party Entities Acting on Behalf of One or More Program Administrators.**

Section 22681 of AB-1284 requires a program administrator to "establish and maintain a training program for PACE solicitor agents, which is acceptable to the commissioner." This training program comprises two distinct components: (i) an introductory training "as part of the program administrator's enrollment process"; and (ii) six hours of education "provided by the program administrator within three months of completing the program administrator's enrollment process." Cal. Fin. Code § 22681(a), (b).

The Administrators interpret these provisions to permit a program administrator to provide training through one or more third party entities acting on behalf of such program administrator. The Administrators request that DBO clarify Section 22681 to confirm this interpretation, and to consider such training as being "provided by the program administrator" in instances where such training is administered in connection with enrollment with a different program administrator.

For example, the Administrators are considering jointly engaging one or more third party entities to develop and provide a standardized training on behalf of the Administrators. The Administrators believe that a PACE solicitor agent should be considered to have satisfied the training requirements of all three Administrators by virtue of having completed the standardized training in connection with his or her enrollment with any one of the Administrators, because each Administrator will have effectively provided such training. This "portable" training concept would create flexibility and encourage uniform training curricula throughout the PACE industry, as well as reducing the burden on PACE solicitor agents by avoiding duplicative training obligations.

III. **Establishing a Registry for PACE Assessments**

Section 22693 of AB-1284 gives the Commissioner the ability, by rule, to require a program administrator to use a real-time registry or database system for tracking PACE assessments. By January 2, 2020, the Commissioner will determine whether to proceed with such a rulemaking. We believe that this real-time PACE assessment registry should be created as soon as possible.

The creation of such a registry would be a significant consumer protection in the PACE industry, and would create much needed transparency in the PACE market with significant and positive implications for underwriting. For example, the underwriting criteria in Section 22684(k) of AB-1284 requires that the program administrator verify the existence of recorded assessments and ask the property owner if they have authorized additional PACE assessments on the same subject property that have not yet been recorded. Absent a registry, it is impossible for a program administrator to verify any authorized but unrecorded assessments given the broader tax collection and title processes.

The Administrators are actively developing a proposal to bring to DBO for consultation and review. The proposal would include the specifications for such a registry and possible use cases. It is important that the registry be limited to legitimate use by licensed program administrators and prohibited for use as a sales and marketing list, and that all data within the registry be protected and prohibited from being shared publicly, particularly property owner information.

IV. License Application and Administration

A. CFL Application for Program Administrators Should be Consistent with Application for Existing Classes of CFL Licensees.

The Administrators believe that the existing CFL license application is appropriate for use by program administrators with some modifications. The application form may need to be modified to reflect its applicability to program administrators (e.g., adding the designation “Program Administrator” to supplement existing designations of “Lender” and “Broker”; adding the designation “Assessments” to supplement the existing designations of “Commercial Loans” and “Consumer Loans”).

The Administrators expect to be evaluated in a manner consistent with how all other CFL licensees are evaluated, without the imposition of additional licensing requirements. DBO received comments from various stakeholders proposing the imposition of application requirements to program administrators that are not imposed upon any other existing classes of CFL licensees. To do so would unjustifiably disadvantage entities seeking to become licensed as program administrators, particularly small businesses, by creating additional barriers to entry for prospective program administrators and therefor impede the policy goals of PACE.

B. Books and Records Should Not Include Information Associated with PACE Payment Servicing and Collection; and Application and Origination Related Information Should Be Retained for a Period of Five Years.

Books and records maintained by program administrators are generally consistent with those maintained by current CFL licensees. However, because program administrators provide originations-based services on behalf of municipal entities, payment servicing and collection information is primarily maintained by county tax collection authorities, not program administrators. As a result, there should be no requirement for program administrators to maintain information associated with payment servicing and collection.

Various stakeholders have suggested that program administrators should retain certain application- and origination-related information, as distinguished from ordinary books and records, for a period of five years after the date of origination. The Administrators believe this to be a reasonable timeframe, consistent with broader financial services industry practices and SB-242’s requirements regarding the retention of recordings of confirmation of terms calls.

C. Annual Report Data Requirements for Program Administrators Should be Consistent with Requirements for Existing Classes of CFL Licensees.

The Administrators believe that data reporting requirements applied to program administrators should be consistent with the requirements applied to other CFL licensees designated as brokers or originators (e.g., number of assessments originated, aggregate balance of assessments at time of origination), taking into account the unique requirements contained within Sections 22692 and 22687(f) of AB-1284. Moreover, because SB-242 contains comprehensive requirements to report various data to public agencies, the Administrators believe that there is already a robust reporting framework for PACE.

The Administrators expect to satisfy reporting obligations consistent with those of other CFL licensees, without the imposition of additional obligations. DBO received comments from various stakeholders proposing the imposition of reporting obligations that are not imposed upon any other existing classes of CFL licensees, which would unjustifiably impose a significant burden on program administrators.

* * * * *

Thank you for the consideration of these comments. The Administrators appreciate the opportunity to share our perspective on the proposed regulations and we look forward to working with DBO throughout the rulemaking process. Should you have any questions or require additional information, please feel free to contact us.

Sincerely,

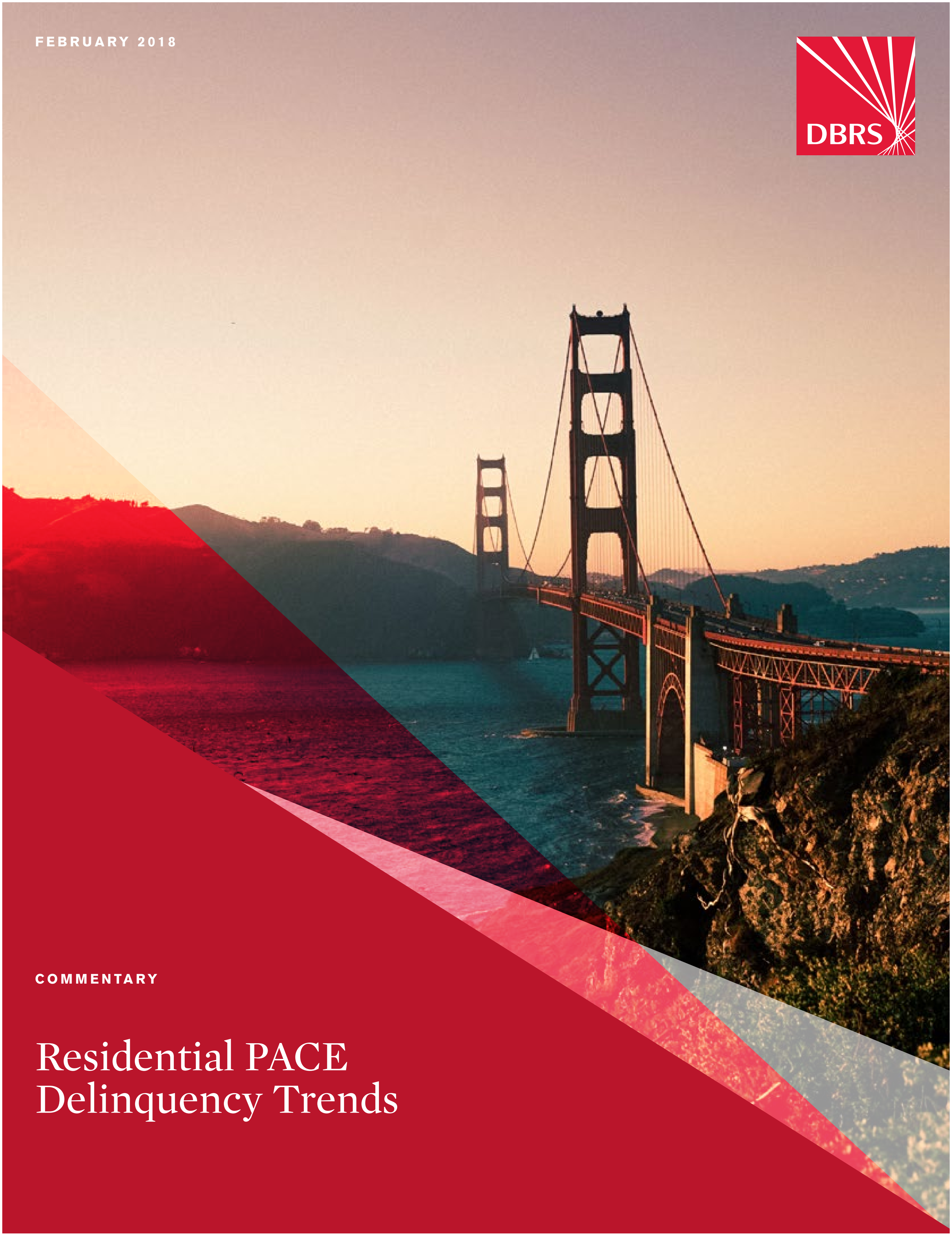
Ari A. Matusiak
Chief Strategy Officer
Renovate America

Cliff Staton
Executive Vice President
Renew Financial

Michael Lemyre
Senior Vice President
Ygrene Energy Fund

Encl.

FEBRUARY 2018



COMMENTARY

Residential PACE Delinquency Trends

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Table of Contents

Executive Summary

Over the past year, there has been significant media coverage on the topic of delinquency levels for Property Assessed Clean Energy (PACE) obligations. The following commentary is designed to provide clarity and additional transparency on residential PACE delinquency trends. DBRS, Inc. (DBRS) has been rating asset-backed security (ABS) transactions backed by PACE assessments (see PACE Overview below) since 2015. Furthermore, DBRS reviews delinquency trends for PACE assessments and local residential property taxes in conjunction with its initial ratings as well as on-going surveillance of outstanding ratings.

Residential PACE originated in California in 2009, and the state remains the largest market, followed by Florida and Missouri. Accordingly, the discussion herein is focused on performance levels in California for portfolios originated by Renovate America, Inc. (Renovate) and Renew Financial Group LLC (Renew) since Renovate and Renew in aggregate represented 81.3% of total PACE ABS issuance in 2017 and 2016 combined.[1]

Highlights of the discussion herein include:

- While PACE is a relatively new asset class, there is sufficient data to analyze performance in recent years;
- The limited performance history shows strong performance with very low delinquency levels around 2% to 4% at the peak, declining to less than 1% within 12 months;
- PACE delinquency metrics are lower than general aggregate property tax and single-family residential only property tax delinquency levels. PACE also shows consistent performance and very low volatility across tax years; and
- Healthier performance relative to all residential tax payors may reflect self-selection of PACE homeowners to improve their properties.

PACE Overview

PACE programs are local or statewide government-sponsored programs that facilitate the financing of energy efficiency, renewable energy and water conservation improvements (collectively, the Improvements) on commercial and residential properties. PACE programs are based on legal precedents with a long-standing history in the United States that permit the government to facilitate a public purpose through special taxing authorities. Accordingly, PACE financing is repaid over a term of five to 30 years (varying by originator) in the form of voluntary special assessments invoiced and paid with property taxes collected by the relevant tax authority for the property that had the Improvements installed (PACE Assessments). PACE Assessments have equal-lien priority with property taxes and typically rank senior to first-lien mortgages on the property. There is no acceleration of PACE Assessments upon a default as is the case with a mortgage or home equity line of credit. Only the delinquent installments in arrears at the time of a foreclosure are due and payable out of the foreclosure proceeds. The purchaser acquiring the property in the foreclosure sale will continue making the PACE Assessment payments from that point forward.

1. Source: Asset-Backed Alert.

PACE Payment Dates

In California, PACE Assessments funded on or prior to June 30th are placed on each county's tax roll on or before August 10th, and the first installment is due on November 1st of the same year. PACE Assessments funded on July 1st or later are placed on the county's tax roll by August 10th of the following year and the first installment is due on November 1st.

If, by December 10th, the first installment is not paid together with property taxes, it becomes delinquent and accrues a 10% penalty. The second installment is then due on February 1st. Similarly, if by April 10th, the second installment is not paid together with property taxes, it becomes delinquent and accrues a 10% penalty. Amounts still unpaid as of June 30th are considered defaulted and accrue an additional 1.5% of default interest per month, until paid. For this reason, delinquencies are at the highest level following the first installment and decline over the course of the tax year. Homeowners generally cure past due amounts prior to June 30th in order to avoid the 18% penalty interest and potential foreclosure.

This trend of declining delinquency over time is evident in the PACE delinquency data that DBRS has analyzed:

1. Delinquency data provided by David Taussig & Associates, Inc. (DTA) for Renovate and Renew's portfolios. DTA is the tax roll administrator for the PACE programs administered by Renovate and Renew.
2. Delinquency data reported in the remittance reports for the HERO Funding transactions rated by DBRS. HERO Funding is Renovate's ABS issuance platform.

DTA Data

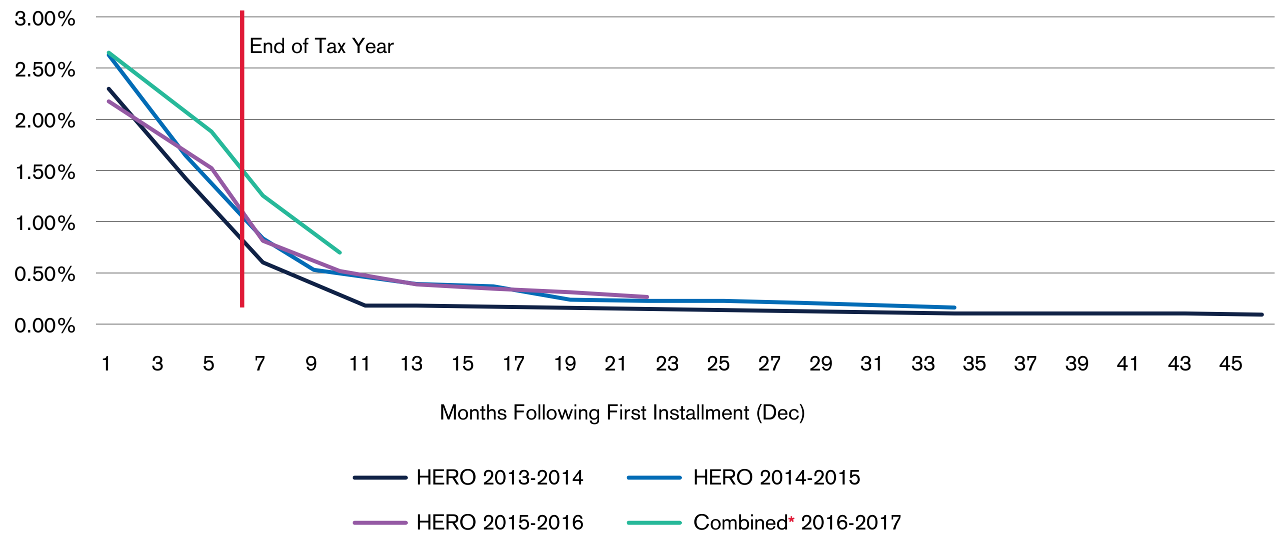
DBRS evaluated PACE delinquency data provided by DTA for the Renovate and Renew programs starting in the tax year of 2013-2014 through to the tax year of 2016-2017 (the DTA Data). The DTA Data is grouped by tax year for each administrator and provides past due balances at various points in time over the course of the tax year and the total annual levy due. Using the DTA Data, DBRS calculated the delinquency rate in the following manner: the delinquency rate following the first installment due date (December to March) is equal to the delinquent amount divided by half the annual levy since only half of the levy is due at the first installment. The delinquency rate following the second installment (April and beyond) is equal to the delinquent amount divided by the entire annual levy as the full amount of the annual levy is considered past due on April 10. Throughout the discussion herein, DBRS refers to "Delinquency Rates" using this calculation.

Delinquencies are reported on a tax year basis since that is the manner property tax delinquencies are reported. In general, each tax year is considered its own vintage for purposes of reporting delinquencies on a static pool basis over time, including beyond the end of the tax year. For this reason, it is not possible to evaluate PACE delinquency and defaults trends using more traditional static pool analysis in the same manner DBRS would for a consumer ABS asset class such as auto loans.

The DTA Data shows a peak in January of each tax year at a fairly low level of 2.0% to 4.0% and a gradual decline to the end of the tax year in June and continuing declines thereafter. By Month 22 (the last point in time for which there are at least three data points), exceptionally low Delinquency Rates ranging from 23 basis points (bps) to 27 bps are evident. This suggests that PACE delinquencies are consistently and quickly resolved within 12 to 18 months following the first installment being past due.

Exhibit 1 plots the Delinquency Rates based on the DTA Data with the time periods being the months following the first installment due date of December (i.e., Month 1 represents January of each tax year).

Exhibit 1: PACE Delinquency Rates



* Tax year 2016-2017 is combined for both HERO and Renew.

Exhibit 1 also shows low volatility around each point in time suggesting consistent performance across tax years.

Additionally noted is the low degree of volatility over time by considering the minimum, maximum, median and standard deviation of Delinquency Rates at various points in time across tax years and across PACE programs. Exhibit 2 details such statistics for Months 1 to 22, which had between three and five data points (out of a possible six). As seen in Exhibit 2, the dispersion around the median is relatively small and becomes progressively tighter as you move forward in time, as evidenced by the lower standard deviation in Months 10, 13 and 22 relative to Months 1, 5 and 7.

Exhibit 2

	Months Following First Installment (Dec)					
	1	**5**	**7**	**10**	**13**	**22**
Min	2.18%	1.52%	0.60%	0.52%	0.18%	0.23%
Max	3.98%	2.34%	1.54%	0.82%	0.39%	0.27%
Median	2.46%	1.99%	0.84%	0.68%	0.31%	0.23%
Std Dev	0.73%	0.35%	0.37%	0.15%	0.11%	0.02%

Delinquency Trends

Exhibits 3 to 6[2] detail delinquency trends for the HERO Funding transactions rated by DBRS (2015-3, 2016-1, 2016-2 and 2016-3), which had PACE Assessments due in the 2016-2017 tax year.

Exhibits 3 to 6 plot the delinquent amount in dollars and the Delinquency Rate as a percentage of the 2016-2017 tax year levy due from March 2017 through December 2017.

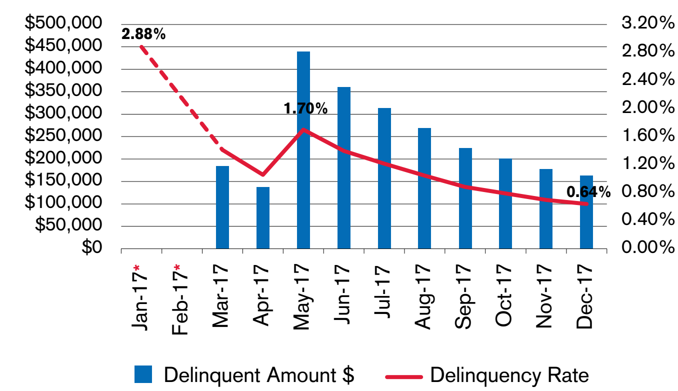
2. Source: DBRS Performance Analytics Reports available on www.dbrs.com and Trustee Remittance Reports.

There are generally two delinquency spikes over the course of the tax year. The first spike occurs in December, when the first installment is considered past due and the second in April, when the second (and full year) installment is considered past due. Due to reporting cut-off dates, these lags are evident in the January and May trustee remittance reports similar to the DTA Data. Delinquency data for the 2016-2017 tax year is not available prior to March 2017, thus only the May spike can be seen in Exhibits 3 to 6. The May spike ranges from 1.7% to 2.2%. As homeowners pay their past due balances over the balance of the tax year and beyond, the Delinquency Rate declines to a range of 0.6% to 0.7% in December 2017. This pattern and absolute level of Delinquency Rates is consistent with the DTA Data seen above.

While the January Delinquency Rate is not available for the 2016-2017 tax year, it is reported for the 2017-2018 tax year. The January 2018 Delinquency Rate ranges from 2.9% to 3.5%, which again is consistent with the Month 1 Delinquency Rates reported in the DTA Data. DBRS would expect similar levels of delinquency for January 2017, if the data were available. Furthermore, DBRS expects the January 2018 delinquency levels to diminish over the course of the year to levels comparable to those reported in December 2017.

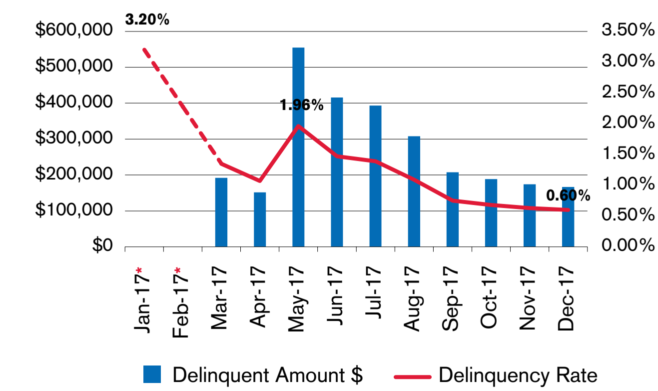
Exhibits 3 to 6 show January and February 2017 Delinquency Rates as estimated using the actual levels reported for January 2018 for each transaction as the January 2017 level. The February 2017 level is the average of the January 2018 and March 2017 levels. Overall, the January peak is the highest of the two and is approximately 1.5 times to 1.7 times that of the May level.

Exhibit 3: HERO Funding Trust 2015-3



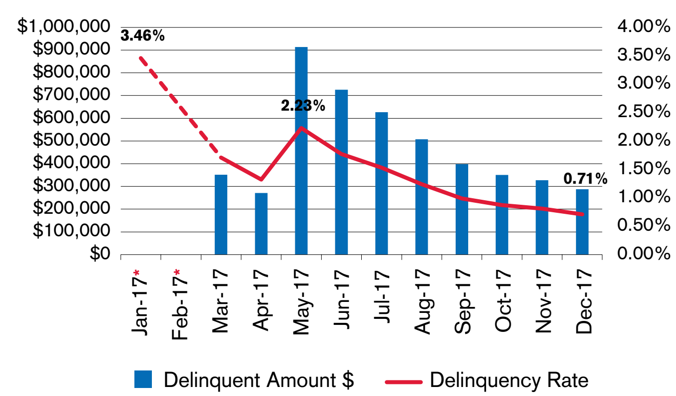
* Jan-17 & Feb-17 are estimates based on Jan-18 actual.

Exhibit 4: HERO Funding Trust 2016-1



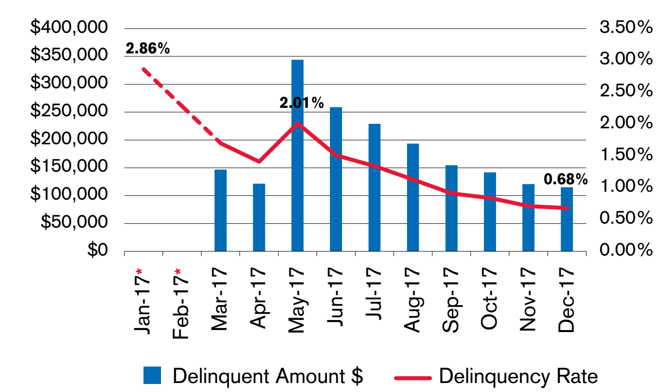
* Jan-17 & Feb-17 are estimates based on Jan-18 actual.

Exhibit 5: HERO Funding Trust 2016-2



* Jan-17 & Feb-17 are estimates based on Jan-18 actual.

Exhibit 6: HERO Funding Trust 2016-3



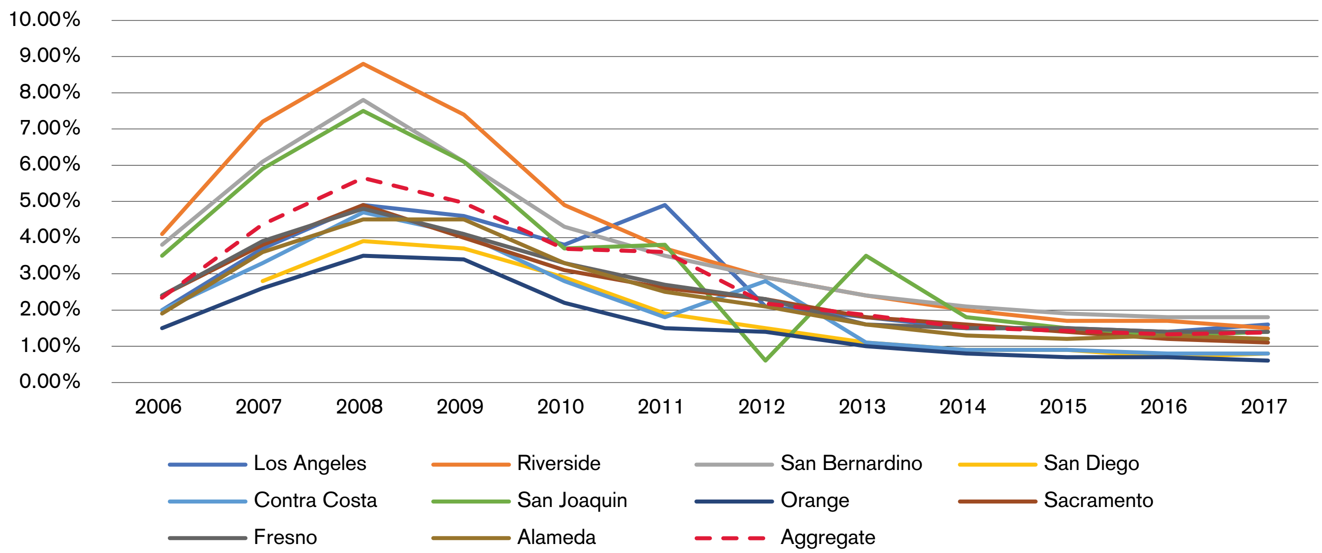
* Jan-17 & Feb-17 are estimates based on Jan-18 actual.

California SCO Data

The California State Controller's Office publishes ad-valorem property tax payment reports detailing the percentage of the total annual levy that was paid as of the end of each tax year going back to 1993-1994 (the SCO Data).[3] With this information, one can calculate the Delinquency Rate as of (approximately) June 30th and compare it to the DTA Data. The SCO Data reporting dates may vary somewhat by county and tax year, however, they are primarily on or around June 30th. To the extent the DTA Data is not available as of June 30th, DBRS used the Delinquency Rate reported in July as a proxy for the tax year-end. It would not be appropriate to use the May Delinquency Rate since May falls ahead of the tax year-end and does not reflect any last minute payments collected in June.

DBRS analyzed Delinquency Rates derived from the SCO Data for the top 10 counties in California with PACE programs representing approximately 80% of outstanding PACE Assessments (the PACE Counties).[4] Exhibit 7 plots the Delinquency Rates for tax years beginning 2005-2006 through 2016-2017, and the aggregate (weighted-average (WA)) Delinquency Rate for the PACE Counties. As seen in Exhibit 7, the Delinquency Rate as of the tax year-end ranges from a high of 8% to 9% during the financial crisis declining gradually to 1% to 2% in recent years.

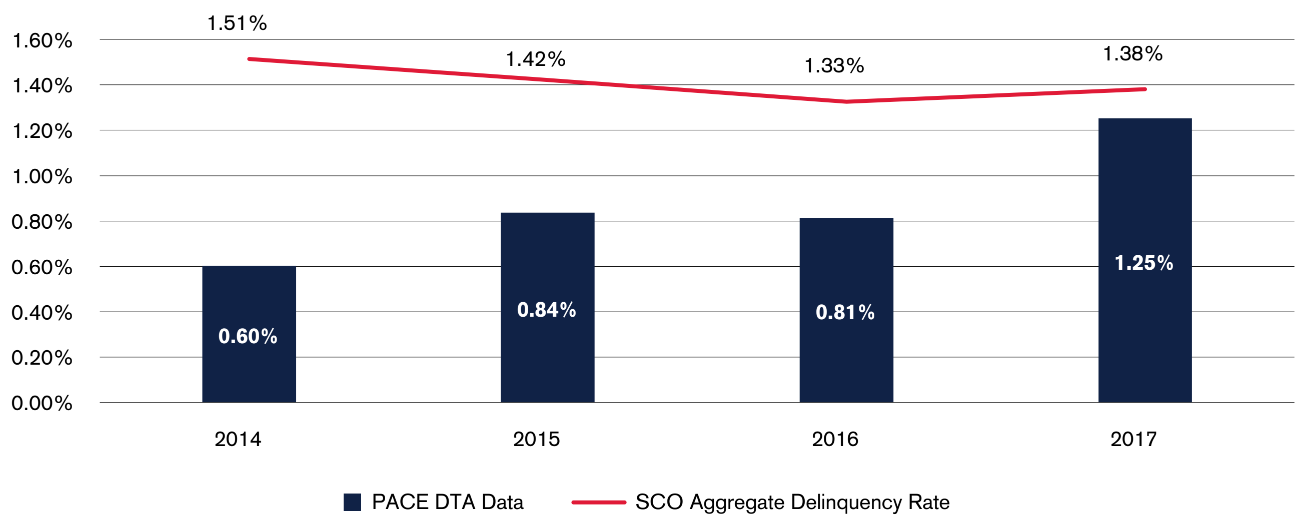
Exhibit 7: Aggregate SCO Tax Delinquency as of Tax Year End



3. Source: California State Controller's Office website: https://www.sco.ca.gov/ardtax_tcs_year_rpt.html
4. Based on the HERO 2017-3 and Renew 2017-2 combined pools, the top 10 counties are: Los Angeles, Riverside, San Bernardino, San Diego, Contra Costa, San Joaquin, Orange, Sacramento, Fresno and Alameda.

Exhibit 8 compares the SCO Data for the 2013-2014 to 2016-2017 tax years against the DTA Data for the same period and shows that PACE Delinquency Rates (i.e., the DTA Data)[5] compare favorably to the WA SCO Delinquency Rate across the PACE Counties. As seen in Exhibit 8, PACE Delinquency Rates range from 0.6% to 1.3% versus 1.3% to 1.5% for the WA SCO Delinquency Rate (both as of the tax year-end).

Exhibit 8: Aggregate SCO vs. PACE Delinquency as of Tax Year End



However, one limitation of the SCO Data is that it reports aggregate delinquencies across all property types (i.e., residential, commercial, industrial, agricultural and all others). Therefore, it is not an entirely equivalent benchmark to use when looking at residential PACE delinquencies.

Single-Family Residential Data

As a result of the basis mismatch between the SCO Data and DTA Data noted above, DBRS also evaluated single-family residential (SFR) property tax delinquency data for the PACE Counties (the SFR Data).[6] The SFR Data isolated SFR delinquencies alone and therefore can be a useful benchmark for comparisons to PACE Delinquency Rates using the DTA Data. The SFR Data is as of the second installment due date for the tax years beginning 2005-2006 through 2016-2017. The reporting dates vary by county and tax year, but predominantly fall between April 10 and May 30 of each year. Accordingly, the SFR Data represents the second delinquency peak discussed above. Exhibit 9 plots the Delinquency Rate and the aggregate Delinquency Rate (the Aggregate Delinquency Rate) for the PACE Counties. The Aggregate Delinquency Rate is equal to the total delinquent amount for all PACE Counties divided by the total levy amount for all PACE Counties in each year.

As seen in Exhibit 9, the Delinquency Rate as of the second installment date ranges from a high of 12% to 14% during the financial crisis, declining gradually to 2% to 3% in recent years.

5. HERO only for 2014, 2015 and 2016. Combined HERO and Renew for 2017.
6. Source: California Tax Data.

Exhibit 9: Aggregate SFR Tax Delinquency as of Second Installment Due Date

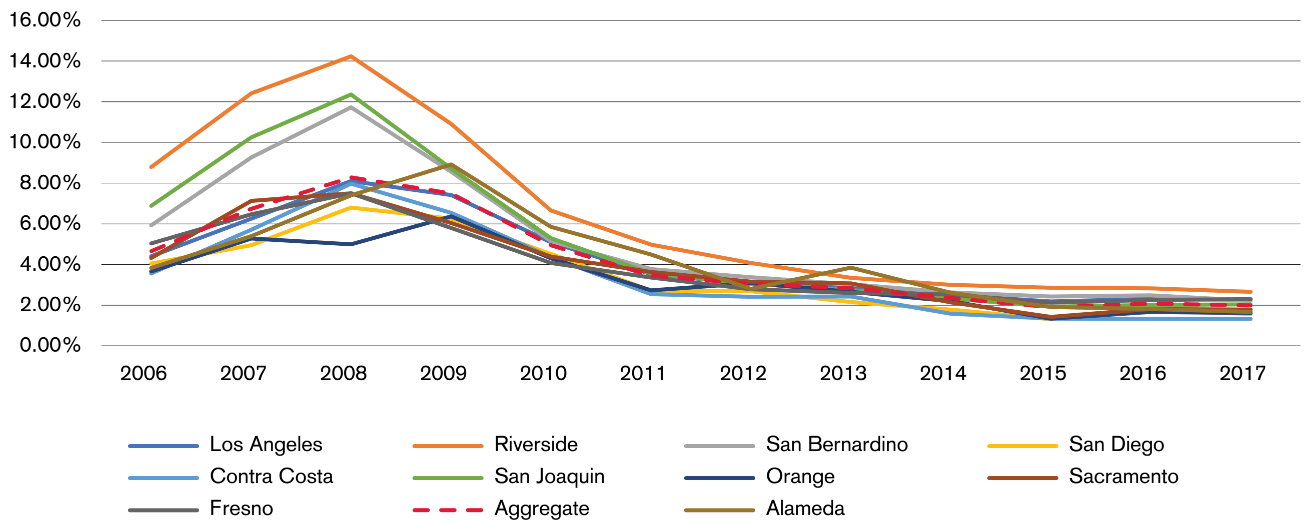
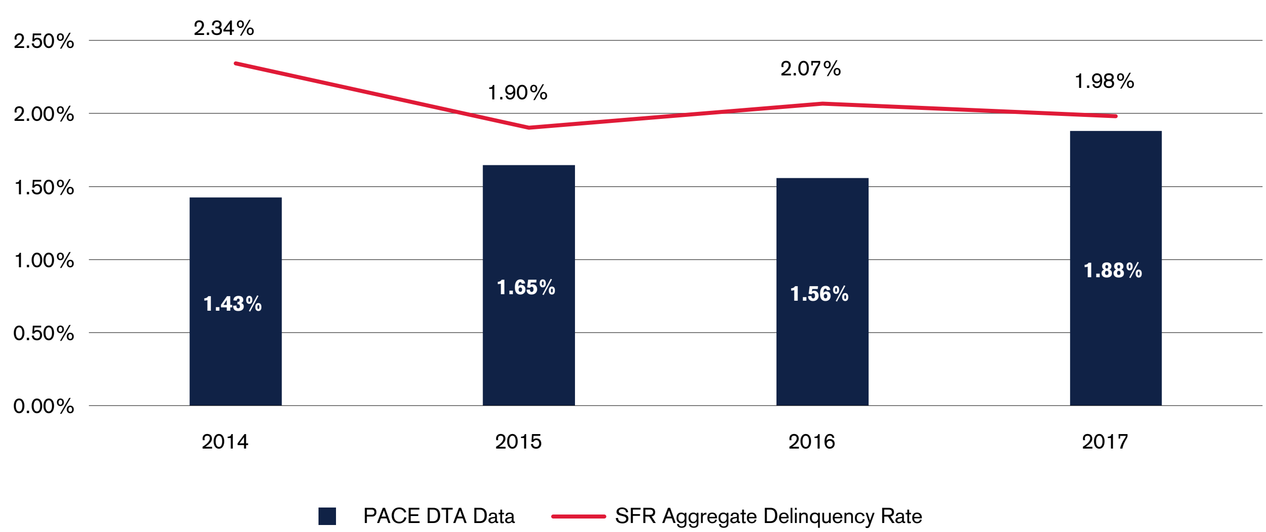


Exhibit 10 plots SFR Data for the 2013-2014 to 2016-2017 tax years and DTA Data[7] for the same period. Exhibit 10 shows that PACE Delinquency Rates (i.e., the DTA Data) compare favorably to the Aggregate Delinquency Rate. As seen in Exhibit 10, PACE Delinquency Rates range from 1.4% to 1.9% versus 1.9% to 2.3% for the Aggregate Delinquency Rate (both as of the second installment due date).

Exhibit 10: Aggregate SFR vs. PACE Delinquency as of Second Installment Due Date



7. HERO only for 2014 and 2015. Combined HERO and Renew for 2016 and 2017.

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