

Federal Housing Administration Move on PACE Showcases Program's Possible Impact

Article By:

David L. O'Connor

On August 24, **President Obama** directed the **Federal Housing Administration (FHA)** to allow homeowners to purchase and refinance properties with **Property Assessed Clean Energy (PACE)** loans when those loans are subordinated to an FHA-insured mortgage. He [announced](#) this new policy in his keynote address at the [National Clean Energy Summit](#) in Nevada. The President said he hopes his initiatives will bring clean energy to households nationwide. By allowing homeowners to make renewable energy improvements on their homes and gradually pay them off through property taxes, PACE can unlock renewable and efficient upgrades for millions of homeowners. To learn more about the President's action, the PACE program, and the possibilities for its future, read more below:

- **What is PACE?:** PACE financing aims to help residential and commercial property owners overcome the high up-front costs of clean energy retrofits by providing the funding for renewable energy and energy efficiency upgrades. Through the program, owners can immediately reap the benefits of clean energy improvements and incrementally pay down the costs through a voluntary increase in their annual property taxes over a 10- or 20-year term. The idea first picked up steam from the mid to late 2000s, but faced a setback in 2010 when the FHA's operating agencies, Fannie Mae and Freddie Mac, refused to insure mortgages on houses possessing PACE liens.
- **State Level Success:** Despite Fannie and Freddie's action, several states, including California, Florida, Michigan, and Connecticut, have moved ahead with their own programs. In California, the most active state, Renovate America administers the award winning HERO Program, and has become the largest residential PACE provider. Since 2011, the HERO program has financed more than \$800 million in clean energy improvements on 35,000 homes. Additionally, last year 17 counties re-launched the residential component of CaliforniaFirst. It has since delivered more than \$300 million in PACE financings.
- **Taking it Federal:** The President's move takes PACE to the federal level with FHA guidance. FHA provides financing for low income and credit-constrained homeowners and home buyers – the Administration currently estimates 7.6 million participating households. On August 24, the Department of Housing and Urban Development (HUD) issued preliminary

guidelines for using FHA-insured financing on PACE assessments. With the FHA becoming increasingly important in the housing market (it insures over 20% of new mortgage originations), these regulations could substantially expand the PACE program.

- **Enthusiastic Endorsements:** Stakeholders from a variety of perspectives reacted to the announcement enthusiastically. J.P. McNeill, CEO of Renovate America, hailed it as “a significant step forward for PACE.” He applauded the action as one that will allow FHA to work at all levels of government to accelerate PACE’s availability and acceptance. The Solar Energy Industries Association also approved, as CEO Rhone Resch declared “today’s announcement cuts through red tape...to build out solar projects in under-served areas.”
- **Moving Forward:** The Obama Administration hopes the measure will have a broad impact beyond FHA insured homes. In the White House announcement, they noted: “FHA’s evolving PACE guidance is also being informed by ongoing conversations with the Federal Housing Finance Agency.” Coupled with federal action, HUD Secretary Julian Castro is imploring more states to get involved. He sent a letter to governors describing the options the FHA offers to make it easier for consumers to use PACE for energy retrofits.

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