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CALIFORNIA ASSOCIATION OF REALTORS® Disappointed in HUD Decision to Insure FHA Mortgages with PACE Loans

LOS ANGELES (July 19, 2016) – The CALIFORNIA ASSOCIATION OF REALTORS® (C.A.R.) today issued the following statement in response to the U.S. Department of Housing and Urban Development’s new policy that the Federal Housing Administration (FHA) will begin insuring mortgages on certain properties with Property Assessed Clean Energy (PACE) loans.

“Although C.A.R. supports voluntary consumer-friendly energy improvement programs for homeowners, C.A.R. believes that HUD was ill advised to approve placing PACE loans in a senior position to FHA first mortgages,” said C.A.R. President Pat “Ziggy” Zicarelli. “Doing so places FHA homebuyers and taxpayers at risk and does homeowners a disservice by approving a loan product without consumer protections and which is aggressively sold to homeowners who rely on FHA financing for safe and affordable mortgages.”

PACE loans are unfairly expensive, and often are sold by high pressure door-to-door sales people. Although PACE loans are in a senior position, they carry interest rates higher than the first-mortgage or a home equity loan. C.A.R. feels that the FHA has failed to justify why it supports a program whose interest rates border on predatory and do not follow even basic lending guidelines for consumers.

“This loan product has no minimum disclosures, no underwriting of the borrower, no proof that the borrower has the ability to repay, no three-day right to rescind, no marketing limitations, no interest rate or fee caps, no kickback prohibitions; nothing,” added Zicarelli. “If the housing market of the last decade has taught us anything, it’s that first-time homeowners, and low- and moderate-income homeowners are the most vulnerable and will be taken advantage of. Sadly, it is they who the FHA is inviting unregulated PACE lenders to target.”

For the last six years, HUD has stayed silent while California’s housing market has operated under the guidelines of the Federal Housing Finance Agency (FHFA); the conservator of Fannie Mae and Freddie Mac. The FHFA prohibits PACE loans to be placed in a senior position to the mortgage. HUD’s announcement today of a contrary policy to accept PACE loans in a senior position to the first mortgage will only cause confusion and uncertainty for homeowners, home buyers, REALTORS®, lenders, escrow, title, and the housing market overall. The confusion is particularly unfortunate because the FHA only accounts for approximately 20 percent of mortgages.

Both the FHA and Fannie Mae currently offer mortgage financing that allows borrowers to finance energy efficiency improvements at lower rates than PACE loans.

Now, more than ever, the California legislature must pass C.A.R. sponsored AB 2693 (Dababneh) to ensure consumers are aware of the consequences of PACE loans and have the opportunity to rescind after a three-day cooling off period.

Leading the way...® in California real estate for more than 110 years, the CALIFORNIA ASSOCIATION OF REALTORS® (www.car.org) is one of the largest state trade organizations in the United States, with more than 175,000 members dedicated to the advancement of professionalism in real estate. C.A.R. is headquartered in Los Angeles.

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