The Case for Lender Consent: A guide for mortgage lenders & property owners

Commercial Property Assessed Clean Energy, or C-PACE, is accelerating across the nation. As of March 2020, 36 states and the District of Columbia have passed C-PACE legislation, and programs are active in 20 states and D.C. More than 2,000 C-PACE projects have been funded, with over $1.1 billion invested. The economic impact for local communities from C-PACE investments is estimated to be as much as $1.4 billion.

Unlike traditional financing, C-PACE is secured by a voluntary special assessment, so a corresponding lien is placed on the property. The C-PACE assessment has lien priority over the mortgage debt, as with other property assessments. Therefore, property owners must obtain written consent from mortgage holders before the project can be approved. Initially, this may seem like a challenge, however, tax assessments are not a new concept: most localities use them to fund public infrastructure projects, such as sewers.

Why have over 200 national, regional, and local lenders to date have consented to C-PACE assessments? Here are several key reasons why a mortgage lenders consent to C-PACE, and which property owners may wish to emphasize:

1. I**mproves the senior lender's collateral value**. C-PACE projects reduce a building's operating costs because energy savings projects typically result in cost savings greater than the amount of the C-PACE assessment. This increases the net operating income and the building's asset value.
2. Increased cash flow from C-PACE projects **improves the debt coverage ratio** for mortgage lenders.
3. There is **insignificant, if any, incremental risk to the lender**. A typical C-PACE project comprises up to 20% standalone LTV and 80-90% combined LTV. With the average annual C-PACE payment falling between 1-2% of the property value, the risk to a lender is minimal.
4. C-PACE is **non-recourse financing**. The assessment is underwritten to a property's appraised or assessed value, and not to the building owner's credit.
5. C-PACE assessments are **not accelerating** in the event of a payment default or delinquency. Only any past due portion is senior to the mortgage lender's claim, which is usually only 1-3% of the property value.C-PACE repayment obligation transfers to new owner if a building is sold.
6. Assessment **repayments can by escrowed**. Lenders concerned about repayment can require funds to be escrowed to mitigate any default or delinquency risks.
7. An **inter-creditor agreement is not required**. A senior lender's foreclosure is not affected by C-PACE. In fact, no existing remedies under the mortgage loan documents are impacted by C-PACE.
8. D**ebt service coverage can be improved** with C-PACE financing. C-PACE financing offers lower interest rates than preferred equity or mezzanine debt and offers longer maturities. This ensures lower payments and a higher debt service coverage ratio.

Additional information can be found at C-PACEAlliance.com or PACENation.org.

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Directory of Consenting Mortgage Lenders in the Mid-Atlantic Region

The following institutions have consented to C-PACE assessments for projects financed in Maryland, Virginia, and the District of Columbia.

Ally Bank
Amalgamated Bank
America's Christian Credit Union
Bank of America
BBCN Bank
BB&T
BMO Harris Bank
Bostonia Partners LLC
Citibank
Citizen's Bank
City National Bank
CMBS
Columbia Bank/Fulton Bank
CW Capital
DC Dept of Behavioral Health
DC Dept of Housing and Community Development
DC Housing Authority
Eagle Bank
Farm Credit East
Fifth Third Bank
First Citizens Bank & Trust
First Community Bank
First National Bank
Goldman Sachs Bank USA
Grandbridge Real Estate Capital
Hanmi Bank
JP Morgan Chase
M&T Bank
Mutual of Omaha Bank
Point Breeze Credit Union
Presbyterian Church Investment & Loan Program, Inc.
PSG Lending, LLC
Revere Bank
Sandy Spring Bank
Suntrust Bank
TD Bank
The People's Bank
United Bank
US Bank
US Department of Agriculture
US Small Business Admin.
Wells Fargo
WesBanco

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This document was created by the Virginia Energy Efficiency Council in coordination with the Mid-Atlantic PACE Alliance (MAPA). MAPA is a partnership between stakeholders in Virginia, Maryland, and the District of Columbia to accelerate the implementation of C-PACE programs and projects in the region. For more information, visit pacealliance.org.