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Vermont Department of Banking, Insurance, Securities
and Health Care Administration

BANKING DIVISION

BANKING BULLETIN #34

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PACE Assessment Underwriting Criteria and Standards

For the purpose of this document, a property owner of a PACE qualified property receiving funding to finance an energy saving improvement will be referred to as a "Participant." These underwriting criteria are meant to determine the Participant's credit worthiness and ability to repay the assessment, that the underlying assets have and will retain value, and that there will be savings or some other benefit from the assessment. Under 24 V.S.A. § 3262(a) a participating municipality shall follow underwriting criteria established by the Department of Banking, Insurance, Securities, and Health Care Administration, and shall establish other qualifying criteria to provide an adequate level of assurance that property owners will have the ability to meet assessment payment obligations. A participating municipality shall refuse to enter into a written agreement with a property owner who fails to meet the underwriting or other qualifying criteria.

1. **Definitions:**

- A. **Debt to Income Ratio.** "Debt to Income Ratio" means the ratio of the Participant's Monthly Gross Expenses to the Participant's Monthly Gross Income, expressed as a percentage.
- B. **Energy Audit.** "Energy Audit" means an analysis conducted by a Participating Energy Advisor, using such procedures and standards, including any software program for this purpose, approved by the PACE Program Administrator, of energy loss in a Qualifying Property to quantify the project costs and energy savings and estimated carbon impacts of the proposed energy improvements, including an annual cash-flow analysis.
- C. **Estimated Useful Life.** "Estimated Useful Life" means longest useful life (not to exceed 20 years) of any PACE Improvement as determined by a Participating Energy Advisor.



- D. Master Provider.** “Master Provider” means anyone who originates PACE Assessments under a PACE Program or a Municipality or its agent that administers its PACE Program.
- E. Monthly Gross Expenses.** “Monthly Gross Expenses” means the sum of the following monthly charges owed by the Participant:
1. The monthly mortgage principal and interest payment for any property owned by the Participant. With respect to adjustable rate mortgages where there is a rate reset scheduled within 120 days after the date of application, the monthly lien payment used to determine eligibility will be the greater of:
 - (a) the Participant’s current scheduled monthly mortgage payment or
 - (b) a fully amortizing monthly principal and interest payment based on the note reset rate using the index value as of the date of the application. (In the event that adjustable rate borrowings reset more than 120 days after the date of application, the Participant’s current scheduled monthly loan payment will be used).
 2. One twelfth (1/12) of the annual property taxes, property and flood insurance premiums, homeowners’ association or condominium fee payments, and assessments on any property owned by the Participant.
 3. Any mortgage insurance premiums expressed as a monthly payment.
 4. Monthly payments on all closed-end subordinate mortgages.
 5. Payments on all installment debts with more than 6 months of payments remaining, including debts that are in a period of deferment or forbearance.
 6. Monthly payments on revolving or open-end accounts, regardless of the balance. In the absence of a stated payment, the payment will be calculated by multiplying the outstanding balance by 3 percent.
 7. Monthly payments on a Home Equity Line of Credit (HELOC) using the minimum monthly payment reported on the Credit Report (as defined below). If the HELOC has a balance but no monthly payment is reported, then documentation shall be obtained verifying the payment amount, or the payment will be calculated by multiplying the outstanding balance by 1 percent.
 8. Alimony, child support, and separation maintenance payments with more than 9 months remaining.
 9. Car lease payments, regardless of number remaining.

10. Negative net rental income from all investment properties owned.

11. Payments under the proposed PACE Assessment and any other special assessments.

F. **Monthly Gross Income.** "Monthly Gross Income" means the Participant's income amount before any payroll deductions. It includes:

1. Wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services;
2. Social Security payments, including Social Security and adoption subsidies received by adults on behalf of minors or by minors intended for their own support;
3. Monthly income from annuities, insurance policies, retirement funds, pensions, disability or death benefits, unemployment benefits, rental income, and other continuing income; and
4. Also includable is 1/12 of the estimated annual energy savings as determined in the Energy Audit by the Participating Energy Advisor.

G. **Municipality.** "Municipality" shall mean a city, town, or incorporated village that is participating in the PACE Program.

H. **PACE Agreement.** "PACE Agreement" means an agreement between the Participant and the PACE Program Administrator for the Municipality in which the applicable Qualifying Property is located that evidences a PACE Assessment on the Qualifying Property.

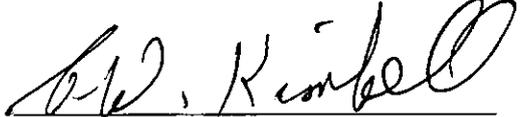
I. **PACE Assessment.** "PACE Assessment" means a special assessment as determined by 24 V.S.A 3261 et seq. Repayment of the PACE Assessment will be in periodic installments (the frequency of which shall be the same as the municipal property taxes on the Qualifying Property) of principal and accrued interest reflecting amortization of the principal amount of the assessment over the assessment's term at the assessment's interest rate.

1. Included in the PACE Assessment will be a payment to a reserve fund, which will be a percentage of the PACE Assessment determined periodically by the Commissioner of Banking, Insurance, Securities and Health Care Administration.
2. Terms shall not be longer than twenty years as determined by the Master Provider, but in no case longer than the Estimated Useful Life of the PACE Improvement.

3. Interest rates are determined by the Master Provider from time to time based on factors including the availability and the cost of funding PACE Assessments and the historical performance of PACE Assessments.
 4. All terms of the repayment will be included in the PACE Agreement.
 5. PACE Assessment terms and interest rates are not to be structured to include negative amortization schedules, adjustable rates, or balloon payments.
- J. **PACE Improvement.** “PACE Improvement” means an improvement or improvements to Qualifying Property that is new and permanently affixed to Qualifying Property and that:
1. Is a renewable energy project as defined in 30 V.S.A. §8002(2), or
 2. Is an eligible project relating to energy efficiency as defined by 24 V.S.A. §3267.
- K. **PACE Lien.** “PACE Lien” means a lien on Qualifying Property securing a PACE Assessment.
- L. **PACE Program.** “PACE Program” means a program established under 24 V.S.A. § 3262 by a PACE Program Administrator under which property owners may finance Energy Savings Improvements on Qualifying Property.
- M. **PACE Program Administrator.** “PACE Program Administrator” means a Municipality or its agent administers one or more of the functions of the PACE Program.
- N. **Participant.** “Participant” means an owner of any Qualifying Property who has applied and been approved for a PACE Assessment.
- O. **Participating Energy Advisor.** “Participating Energy Advisor” means a person or entity appointed as an energy efficiency utility under 30 V.S.A § 209(d)(2) or deemed qualified by a Municipality who provides Energy Audits and is qualified to do so as evidenced by having a current certification recognized by the State of Vermont.
- P. **Qualifying Property.** “Qualifying Property” means a residential dwelling as defined in Section 103(v) of the Federal Truth in Lending Act (24 V.S.A § 3262(a)) located in a Municipality’s PACE special assessment district. Dwelling includes a primary residence, vacation home, 1 – 4 owner occupied structures, manufactured homes, and condominiums.

2. **Underwriting Requirements:** Acceptable application, credit report authorization, and underwriting forms are attached as Exhibits A, B, & C. The underwriter may use a more comprehensive process, provided the more comprehensive process, at a minimum, complies with all of the following criteria:
- A. A PACE Assessment must be secured by a PACE Lien on Qualifying Property;
 - B. The Participant must own the Qualifying Property. Proof of ownership may be obtained from the municipal tax records or land records;
 - C. The maximum amount of any assessment shall be the lesser of:
 - 1. Thirty thousand dollars (\$30,000);
 - 2. 15% of the assessed value of the property or 15% of an updated USPAP conforming market appraisal not more than 6 months old, whichever is greater, or
 - 3. The amount of the PACE Assessment, including the reserve percentage.
 - D. The Participant's Debt to Income Ratio shall not exceed 41%.
 - 1. All Monthly Gross Expenses and related debt shall be verified using a credit report (including a joint report in the case of joint applicants as the Participant) from a nationally recognized credit reporting agency (the "Credit Report"). In addition, information concerning Monthly Gross Expenses obtained in writing from the Participant must be considered.
 - 2. Based on the type and source of the Participant's income, the following documents, none of which may be more than sixty (60) days old as of the date received (except for tax returns), shall be provided to verify Monthly Gross Income:
 - (a) Tax Return: A copy of the first two pages of the most recent federal income tax return.
 - (b) Employment Income: Copies of the two most recent pay stubs indicating year-to-date earnings.
 - (c) Self-Employment Income: The most recent quarterly or year-to-date profit and loss statement or a recent series of bank statements to demonstrate income for each self-employed Participant, where such a profit and loss statement is not available.

- (d) Other Income: Bonus, commission, fee, housing allowance, tips, overtime, benefit income (e.g., Social Security, disability, death benefits, pension, public assistance, unemployment, adoption assistance), rental income, alimony, separation maintenance, and child support are all includable in the Monthly Gross Income, if properly documented and should be verified if it makes up a significant percentage of the Monthly Gross Income.
- E. The term of the PACE Assessment shall not exceed the Estimated Useful Life of the financed PACE Improvements;
- F. All Qualifying Property securing a PACE Assessment must be:
1. Current with respect to property taxes and sewer charges;
 2. Free of property tax and federal, state or municipal liens;
 3. Not be subject to a Reverse Mortgage Transaction (as defined in 8 V.S.A. § 10701(2)); and
 4. Not be subject to a mortgage or other lien for which there is a default, foreclosure, or delinquency that has not been cured, nor any unsatisfied judgment, mechanic's, materialman's, or architect's lien;
- G. The total of the proposed PACE Assessment and all mortgages and liens on the property shall not exceed 90 percent of the higher of the assessed value of that property or an independent appraisal (less than 6 months old).
- H. The Participant must certify that there are no overdue payments on mortgages or other liens secured by such property and provide either a certificate from each existing lien holder or a recent account statement to demonstrate current balances;
- I. The holder of the first mortgage lien that requires a home loan escrow account may require the escrow account to include the PACE Assessment payment.
- J. Such additional requirements as set forth by the lender, investor, or grantor funding the PACE Program.
- K. Such additional requirements as may be determined by the Commissioner of Banking, Insurance, Securities and Health Care Administration from time to time in accordance with prudent underwriting standards.


Stephen W. Kimbell, Commissioner

VERMONT PROPERTY ASSESSED CLEAN ENERGY PROGRAM (PACE) Application

Part I						
Applicant's first name and initial			Last name			
Co-Applicant's first name and initial			Last name			
Property address (number and street)						
City/Town				State VT	Zip	
Mailing address (if different from above)						
City/Town				State	Zip	
SPAN Number (from property tax bill)			Current property tax assessment (from property tax bill)			
Mortgage holder (first lienholder)			Outstanding principal balance			
Mortgage holder (subordinate lienholder)			Outstanding principal balance			
Part II						
1	Is the property a residential dwelling?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
2	Is the property located in the Municipality's PACE special assessment district?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
Are there any "no" responses to questions 1 and 2? <input type="checkbox"/> Yes, STOP <input type="checkbox"/> No, continue to question 3						
3	Are you delinquent with respect to property taxes and/or sewer charges?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
4	Is the property subject to any property tax, federal, state or municipal liens?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
5	Is there a reverse mortgage on the property?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
6	Is the property subject to a mortgage or other lien for which there is a default, foreclosure or delinquency that has not been cured?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
7	Is the property subject to any unsatisfied judgment, mechanic's, material men or architect lien?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
8	Are there any overdue payments on mortgages or other liens secured by the property?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
Are there any "yes" responses to questions 3 through 8? <input type="checkbox"/> Yes, STOP <input type="checkbox"/> No, complete Part III						
Part III						
Applicant			Co-Applicant			
Employer			Employer			
9a	Gross Monthly Salary	\$	9b	Gross Monthly Salary	\$	
10a	Self-Employment Income (average monthly profit or (Loss))	\$	10b	Self-Employment Income (average monthly profit or (Loss))	\$	
11a	Other Monthly Income	\$	11b	Other Monthly Income	\$	
12a	Total Monthly Income (add 7a through 9a)	\$	12b	Total Monthly Income (add 7b through 9b)	\$	
13	Total Monthly Income (12a and 12b)				\$	
Part IV						
By signing this form, the Applicant(s) hereby certifies that the information provided is true and correct as of the date set forth opposite the signature(s) and understand that any intentional or negligent misrepresentation(s) of the information contained in this application may result in legal consequences.						
Applicant's signature			Date			
Co-Applicant's signature			Date			

**VERMONT PROPERTY ASSESSED CLEAN ENERGY PROGRAM (PACE)
General Authorization**

The purpose of this form is to allow the PACE Program Administrator to verify information contained in your PACE application concerning your employment, deposits, mortgage or rent. By giving this permission to request these verifications, if necessary, you will be aiding in expediting the processing of your PACE application.

By signing below, you authorize the PACE Program Administrator to obtain a consumer credit report for purposes of verifying stated financial information to determine your eligibility in the PACE Program and to evaluate your financial ability and capacity to repay a PACE assessment; and to obtain additional credit reports, in connection with the PACE Program, for the purpose of reviewing the assessment, for the purpose of collecting the assessment, and for other legitimate purposes associated with the assessment.

You understand that this credit report will be retained on file by the PACE Program Administrator and that the information will not be disclosed to anyone without your written consent, except as permitted by law.

Identifying Information			
Applicant's first name and initial		Last name	
Co-Applicant's first name and initial		Last name	
Address (number and street)			
City/Town		State VT	Zip
Mailing address (if different from above)			
City/Town		State	Zip
Applicant's Social Security Number		Applicant's Date of Birth	
Co-Applicant's Social Security Number		Co-Applicant's Date of Birth	
Authorization			
Your signature below authorizes the release of any information verifying your credit, employment, mortgage, rent, or other information to the PACE Program Administrator.			
By signing below, you acknowledge that you have read and understand the above authorization.			
Applicant's Signature		Date	
Co-Applicant's signature		Date	

VERMONT PROPERTY ASSESSED CLEAN ENERGY PROGRAM (PACE) Underwriting Level Determination

Part I			
Applicant's first name and initial		Last name	
Co-Applicant's first name and initial		Last name	
Property address (number and street)			
City/Town		State VT	Zip
SPAN Number (from property tax bill)		Current property tax assessment (from property tax bill)	
Applicant's credit score		Co-Applicant's credit score	
Part II			
1	Total outstanding principal balance of all mortgages liens		\$
2	Assessed value of property (from municipal records) or current independent appraisal	\$	
3	Multiple line 2 by .15		\$
4	PACE Assessment	\$	
5	PACE Assessment Reserve (multiply line 4 by .02)	\$	
6	Total PACE Assessment & Assessment Reserve (add lines 4 and 5)		\$
7	Is line 6 greater than line 3?	<input type="checkbox"/> Yes, STOP	<input type="checkbox"/> No, continue
8	Is line 6 greater than \$30,000?	<input type="checkbox"/> Yes, STOP	<input type="checkbox"/> No, continue
9	Add lines 1 + 6		\$
10	Multiply line 2 by .90		\$
11	Is line 9 greater than line 10?	<input type="checkbox"/> Yes, STOP	<input type="checkbox"/> No, go to Part III
Part III			
12	Annual estimated PACE improvement savings as determined in the Energy Audit by the Participating Energy Advisor		\$
13	Annual obligation for PACE Assessment & Reserve as determined in the Energy Audit by the Participating Energy Advisor		\$
14	Is line 13 greater than line 12?	<input type="checkbox"/> Yes, STOP *must use expanded underwriting process	<input type="checkbox"/> No, go to Part IV
Part IV			
15	Monthly estimated PACE improvement savings (divide line 12 by 12)	\$	
16	Monthly income (from Part III line 13 of PACE Application)	\$	
17	Total monthly income (add lines 15 and 16)		\$
18	Monthly payments for debt obligations (from credit report)	\$	
19	Monthly obligation for PACE Assessment & Reserve (divide line 13 by 12)	\$	
20	Monthly obligation for property taxes, property & flood insurance premiums, homeowner's association or condominium fees on all properties owned by Applicant(s)	\$	
21	Total monthly debt payments (add lines 18 through 20)		\$
22	Debt to income ratio (divide line 21 by line 17 and multiply by 100)		%
23	Is line 22 greater than 41%?	<input type="checkbox"/> Yes, STOP	<input type="checkbox"/> No
Part V			
By signing this form, the underwriter attests that he/she considered both the data provided on the application, the credit report, and any other information noted and accordingly provides an adequate level of assurance that the property owners will have the ability to meet the assessment payment obligations as per 24 V.S.A. § 3262(a).			
Underwriter's Name		Underwriter's signature	Date