Residential PACE Bonds

More than cheap finance for retrofits
The share of bonds by 2035

Figure 1.11. Asset-backed and financial sector bonds have the largest potential to scale up (baseline scenario)

Note: ABS = Asset-Backed Security; CLO = Collateralised Loan Obligation. Chart depicts the base case “low-securitisation scenario”.

(Source: OECD 2016a)
Asset shares by CDN Government

(Source: Hughes CCPA 2013)
What is a PACE Bond?

- US, PACE – Property Assessed Clean Energy
- Finance renovations the same way we finance infrastructure
- In Canada, PACE -> Local Improvement Charges (LIC’s)
- LIC voluntarily added to building’s property tax bill
- Remains with the property not the tenant upon sale
Private finance -> Public mechanism

Program design, loan underwriting warehousing and securitization

PACE Program

Investors

Loan for contractor to renovate

Assessed as Local Improvement Charge

Residential homeowner

Local government

PACE Bond

New capital

Property taxes passed through

(Based on C-PACE from OECD 2016b)
The Pace Program

Works with contractors and utilities to offer financing for renovations offering significant energy and carbon reductions

PACE Financing for projects where:
- Improvements provide energy/carbon savings
- Improvements covered by financial savings
- Homeowners immediately realizes net savings
Most home renovations are for aesthetic improvements. These are also opportunities energy efficient renovations

Contractors
- know which improvements will save energy
- know what improvements are eligible for PACE
- can offer renovations 100% funded by PACE
The loan (property lien)

The loan is repayable before all other liens on the property

The Loan
- Assessed based on the history of property taxes and home equity
- Does not require a credit score or add to household debt
- Uses the property as collateral for repayment
- Mortgage lends approached for permission
PACE financing must be enabled through legislation

The Municipality
- Assesses the loan as a Local Improvement Charge
- Property tax billing is already established
- The municipality acts as a ‘conduit’ passing through payments from homeowner to PACE Program
PACE program accepts loan payments from municipality, which are warehoused by together and securitized into bonds

PACE bonds are safe investments
* Very few defaults on property taxes
* Property is used as collateral
* The cash purchases provide new capital for new PACE loans
Private finance -> Public mechanism

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