

# FHA TO CEASE INSURING MORTGAGES WITH PACE ASSESSMENTS

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*The Department of Housing and Urban Development (HUD) announced (Dec. 7, 2017) that it was reversing guidance issued last year that the Federal Housing Administration would stop insuring mortgages on properties that include Property Assessed Clean Energy (PACE) assessments.*

"FHA can no longer tolerate putting taxpayers at risk by allowing obligations like these to be placed ahead of the mortgage itself in the event of a default," said HUD Secretary Ben Carson. "Assessments such as these are potentially dangerous for our Mutual Mortgage Insurance Fund and may have serious consequences on a consumer's ability to repay, or when they attempt to refinance their mortgage or sell their home."

The new guidance states that "FHA is concerned about the potential for increased losses to the Mutual Mortgage Insurance Fund due to the priority lien status given to such assessments in the case of default. FHA is also concerned with the lack of consumer protections associated with the origination of the PACE



assessment, which are far less comprehensive than that of traditional mortgage financing products. FHA's involvement with accepting properties with PACE assessments may indirectly help to overshadow potential consumer abuses."

The FHA said it would continue to monitor this risk to determine whether further action is warranted.

In July 2016, HUD issued guidance that outlined circumstances under which it will insure mortgages on properties that included PACE assessments. Following that announcement, ALTA joined other trade associations sharing concern over HUD's PACE policy. In the letter, the groups said the guidance provides that delinquent PACE loan amounts will retain a first lien position. This would allow any PACE loan amount to hold a senior priority and undermine the lender's (and the government's) collateral position and disrupt the very nature of secured lending. The trade groups also believe the guidance raises several consumer protection issues.

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