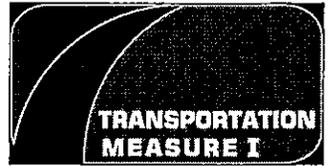




San Bernardino Associated Governments
1170 W. 3rd St., 2nd Floor, San Bernardino, CA 92410-1715
Phone: (909) 884-8276 Fax: (909) 885-4407
Web: www.sanbag.ca.gov



-
- San Bernardino County Transportation Commission •San Bernardino County Transportation Authority
 - San Bernardino County Congestion Management Agency •Service Authority for Freeway Emergencies
-

CITY/COUNTY MANAGERS TECHNICAL ADVISORY COMMITTEE

THURSDAY, August 6, 2015

******10:00-11:00 A.M.******

LOCATION:

**SANBAG
First Floor Lobby
1170 W. 3rd Street, 2nd Floor, San Bernardino, CA 92410**

Introductions

Council of Governments

- Waste Diversion Agreement Update -
Gerry Newcombe, San Bernardino County Public Works Director
- Inland Valley Association of Realtors Opposition to the HERO Program -
Duane Baker, SANBAG and Josh Brock, Renovate America (attachments)
- Discussion of Positions Taken on the Desert Protection Act –
John Gillison, Rancho Cucamonga

Transportation

- Maintenance of Effort Requirements for Measure I - Andrea Zureick, SANBAG

Legislative Matters

- League of California Cities Update - Laura Morales, League of California Cities

City/County Manager Issues

- Report from ICMA Range Rider Update – A.J. Wilson, ICMA

Public Comments

Comments from the general public.

Adjournment

Our next scheduled meeting date is Thursday, September 3, 2015.

Ray Casey,
Chair, City/County Managers TAC



Riverside:
3690 Elizabeth Street
Riverside, CA 92506
951-684-1221

Rancho Cucamonga:
10574 Acacia St., D-7
Rancho Cucamonga, CA 91730
909-527-2133

July 10th, 2015

Rick Bishop
Executive Director
Western Riverside Council of Governments
4080 Lemon St
Riverside, CA 92506

Dear Mr. Bishop,

Since November 2014, the Inland Valleys Association of REALTORS® (IVAR) has received an alarming number of complaints from members whose clients have been ensnared in often expensive problems related to their participation in a consumer lending program known as the Home Energy Renovation Opportunity, or HERO program. The program, which has approved more than 20,000 applications in western Riverside County alone, is in need of significant reform to improve protections for consumers.

In response to member concerns and the inadequate pace of reforms thus far implemented by HERO, the Inland Valleys Association of REALTORS® has adopted the following position on this program, as administered through the Western Riverside Council of Governments:

"The Inland Valleys Association of REALTORS® (IVAR) opposes the HERO Program until and unless:

- 1) *HERO meets accepted consumer protection standards for disclosure and transparency of consumer lending.*
- 2) *HERO Receives appropriate regulatory scrutiny*
- 3) *HERO refrains from making any claims about loan transferability until lending issues with FHA and FHFA have been settled*
- 4) *HERO refrains from making general claims about increases in property values until appraisal issues are resolved."*

For reasons well known to the program's administrators but rarely explained to borrowers, promises related to the ease of transferability of these loans to new borrowers have often not held true when actually tested in the sale or even refinancing of a home. Federal agencies such as the Federal Housing Finance Administration and the Federal Housing Administration, which together back more than 8 in 10 mortgages in the Inland Empire, have steadfastly refused to allow these loans to transfer onto any new mortgages in their portfolio.

Furthermore, most existing borrowers who use HERO financing for home improvements are in violation of their existing mortgage agreements. The homeowners' only course is to hope that the status quo will hold and these agencies will take no action against those who unwittingly engaged in this breach.

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These issues were raised, contemplated and assumed to have been resolved when the HERO Program began operations. Unfortunately, they were not – and remain unaddressed. Based on our research into the matter, we believe that these facts and their consequences have not been adequately addressed to borrowers. Recent improvements to HERO disclosure forms come closer, but still fall short of placing these significant issues front and center before consumers.

The lack of appropriate disclosure to borrowers is the most troubling aspect of HERO's operations in Riverside County. The fact that no regulatory agency appears to have the responsibility to enforce such requirements on HERO, as they do on virtually every other form of consumer lending, appears to have assisted the troubled introduction of this program into the local marketplace. IVAR believes that without regulatory accountability, the HERO Program will not meet levels of consumer protection and disclosure that are commonplace in other parts of the financial industry. Whether the program submits to some form of regulation at the state or federal level or a new regulatory function is created to provide oversight is a choice that may be debated. What should not be in question is whether a regulatory office is necessary to enforce at least minimum standards of consumer protection.

However, those measures may take time. In the interest of protecting consumers as soon as possible, we are asking that the HERO Program move immediately to refrain from making any claims about loan transferability until lending issues with FHA and FHFA have been settled.

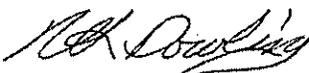
Furthermore, IVAR is concerned about other promises made through the program's marketing efforts. Specifically, past claims, qualified as they may have been, indicated that property value and marketability may increase significantly and disproportionately as a result of home improvements funded through HERO. To our knowledge, these claims have not been supported in the marketplace. It has further become apparent that the debt – and the form of the debt – incurred by borrowers has cast further doubt on how these home improvements impact market value and marketability. For these reasons, IVAR requests that the program refrain from making claims about increases in property values until these market and appraisal issues have been resolved.

We believe that none of these issues present impossible hurdles to the responsible deployment of PACE lending in our communities. In fact, we are eager to work closely with local governments to help build this option for consumers who may not find a better option to finance such home improvements or needed repairs. However, the lack of attention paid to these issues during the rapid expansion of HERO since 2012 is unacceptable.

Sincerely,



Michael Stoffel
President



Mark Dowling
CEO



Paul Herrera
Government Affairs Director



Western Riverside Council of Governments

County of Riverside • City of Banning • City of Calimesa • City of Canyon Lake • City of Corona • City of Eastvale • City of Hemet • City of Jurupa Valley
City of Lake Elsinore • City of Menifee • City of Moreno Valley • City of Murrieta • City of Norco • City of Perris • City of Riverside • City of San Jacinto
City of Temecula • City of Wildomar • Eastern Municipal Water District • Western Municipal Water District • Morongo Band of Mission Indians
Riverside County Superintendent of Schools

July 23, 2015

Mike Stoffel
President
Inland Valleys Association of Realtors
3690 Elizabeth Street
Riverside, CA 92506

Subject: Inland Valleys Association of Realtors (IVAR) Position on HERO

Dear Mr. Stoffel:

I am writing in response to your "President's Message" in the June 2015 Inland Valleys Association of Realtors (IVAR) newsletter detailing the resolution of the Board of Directors to oppose HERO until certain reforms are implemented. I—and all of us working to implement the HERO Program—sincerely appreciate and share IVAR's interest in protecting consumers and addressing regulatory concerns from the Federal Housing Finance Agency (FHFA). That said, we have concerns with the positions and claims made in your newsletter and associated resolution, and in the letter from you dated July 10, 2015. I have not received that letter from IVAR; rather it was forwarded to me for the first time on Tuesday, July 21, 2015, from another source.

We would have liked the opportunity to respond to your positions before they came to a vote and were released to the public because we believe IVAR's actions against the HERO Program reflect a misunderstanding of the Program, how it operates and, most importantly, how it compares to other home improvement financing options available to consumers in the marketplace. Our objective is not only to deliver a program that lowers utility bills, saves water, saves energy, creates local jobs, and reduces emissions, but to raise the bar and deliver better consumer protections and disclosures than any other payment option available to homeowners, including home equity loans, credit cards and leases. I believe these are tenets that Realtors should support in an overwhelming fashion; the fact that IVAR currently opposes HERO indicates that there is much that needs to be clarified and discussed. As such, I would appreciate the opportunity to meet with you and the IVAR Board as I believe it would provide a productive and cooperative informational setting for both of us.

The steps being continuously taken to refine and improve the Program—many of which are articulated in the attachments—are based, in large measure, on direct feedback we have received from the real estate professional community. We are very appreciative of those Realtors that have taken time to provide input, which we will always continue to seek.

In addition to this request for a meeting with your Board, I also would like to request that IVAR stay its resolution, as it was adopted without any input from those of us at WRCOG supervising the Program. Our hope, of course, is that IVAR will revisit its position and support HERO in light of the benefits it provides. We would also like IVAR to commit to partnering with us as we continue to refine and improve the Program. I truly believe that an honest and informational meeting among us will provide a more positive path toward this end.

Page 2
Mr. Stoffel
July 23, 2015

That being said, we have provided information in the attachments to this correspondence on the positions you have recently taken, which we can discuss when we meet.

I look forward to hearing from you. I can be reached by email at bishop@wrcog.cog.ca.us, or you can call my office at (951) 955-8303 or mobile at (951) 258-5047.

Sincerely,



Rick Bishop,
Executive Director

cc: Mark Dowling, CEO
Paul Herrera, Government Affairs Director
IVAR Board Members
WRCOG Executive Committee Members

Attachments:

Responsive Information to IVAR policy positions
Appendix A: HERO Application Form
Appendix B: Updated HERO Financing Summary Form
Appendix C: Existing HERO Consumer Protection Policies Enumerated
Appendix D: Subordination Instructions Form

**Responsive Information
to IVAR policy positions**

Responsive information to IVAR policy positions

IVAR Position #1: HERO must meet accepted consumer protection standards for disclosure and transparency of consumer lending

Information for when we meet: The HERO Program provides homeowners with greater consumer protection standards and disclosures compared to other payment options. The Program welcomes any additional suggestions on how to improve protections and disclosures.

Disclosures:

Since the Program's launch, homeowners received three separate documents which required their review and signature in order to be approved to participate in the Program. These documents include the Application, the Assessment Contract, and the Financing Summary. Within the Application, homeowners must sign a separate section on disclosures, which among other things point out FHFA's position that Fannie Mae and Freddie Mac will not purchase home loans with assessments offered by WRCOG, and as a result the property owners who sell or refinance their homes may be required to repay the assessment at the time they close or sell their home. This particular section is the only section in the application which is in all capital letters (See Appendix A).

This week, we added additional disclosures in the Financing Summary document, which is intended to summarize the key disclosures found in the other documents in a short, easy to read, two page form. Each homeowner must initial each disclosure. The first, on the bottom of page one, and in all capital letters, says (See Appendix B):

"I UNDERSTAND: IF I REFINANCE MY HOME, MY MORTGAGE COMPANY MAY REQUIRE ME TO PAY OFF THE REMAINING BALANCE. IF I SELL MY HOME, THE BUYER OR THE THEIR MORTGAGE COMPANY MAY REQUIRE ME TO PAY OFF THE REMAINING BALANCE."

It is the only disclosure in all capital letters. Within the Financing Summary and the other documents, we disclose the total amount borrowed, the APR, fees, annual payment, annual principal payment, annual interest payment and the product(s) financed. We believe these disclosures to be consistent with other payment options and also reflect feedback we have received from Realtors. We welcome any additional feedback you may have.

Consumer Protection:

WRCOG has prioritized creating robust consumer protection measures which far exceed those of other conventional financing products on the market.

The full list of HERO's existing consumer protections can be found in Appendix C. But, in brief and compared to other financing options, some of the key protections we offer can be summarized in the following categories:

1. **What product you select.** No other financing product verifies what product the contractor is selling a homeowner. HERO requires that all energy efficient products are Energy Star approved by the U.S. Department of Energy and in line with California's renewable energy standards and water products are deemed efficient by the U.S. Environmental Protection Agency before a project is approved, and maintains an up to date database of over 900,000 products. These products are higher in quality and provide homeowners with better payback by lowering energy or water bills.

2. Who does the work. HERO only funds projects completed by contractors who are properly licensed and bonded by the State of California State Contractors License Board, who have a business license for the respective city, and who are in good standing with the Program. None of the other financing options covered above verify that a contractor is properly licensed.
3. Whether pricing is reasonable. Before approving any project, the Program reviews the products that have been selected by the homeowner and whether or not the quoted price is reasonable. If pricing is not reasonable, the project is rejected. No other conventional payment option available reviews whether or not pricing is reasonable and prevents projects from moving forward. In the future, the Program will be launching a tool which will enable homeowners to input a few variables and see what the pricing range for similar projects done for other homes.
4. Whether proper questions have been asked to homeowners over age 64. The Program identifies applicants who are older than 64 years of age and goes through a list of questions to confirm that these homeowners have an understanding of the improvement, the annual payment, the term of the financing and whether they have enough income to make the payment. Applications where the applicants do not have a clear understanding are not approved.
5. Whether the proper permits have been pulled. Banks and credit card companies don't check to see whether proper permits are pulled and as a result a high percentage of projects funded by these sources are completed without permits. 100% of all HERO approved projects must have pulled the appropriate permits before a job is funded.
6. Whether the project has been completed. A home equity line or home equity loan provider does not monitor whether or not the project has been completed. HERO projects must be completed and signed off by the homeowner prior to the release of any payment to a contractor. There are NO payments given to the contractor at the outset of the project so the consumer has more protections than any other type of financing.
7. If something happens after the product is installed. A bank or credit card company does not get involved if a product fails or the workmanship proves to be insufficient. HERO supports customers and handles dispute resolutions between customers and contractors. Contractors must resolve any outstanding issues or are terminated or suspended from the Program. Since HERO has become a valuable financing tool for contractors, they are highly motivated to go out of their way to resolve any potential disputes to ensure their compliance and standing with the program.

The Program's consumer protections are recognized in the marketplace. Indeed, we have been sought out to assist when homeowners run into issues with other, conventional payment options. In one instance, a couple in their 80s entered into an agreement to complete a project on their home. The couple was going to pay cash or obtain a home equity loan. Before work began, the couple wanted to cancel their project and reached out to the California Contractor State License Board (CSLB) for support. The CSLB could not help the homeowner and reached out to the HERO Program to see if we could intervene. Even though we were not involved, the Program reached out to the contractor and resolved the matter for the homeowner.

In May of this year, a special agent from the Federal Bureau of Investigation visited the HERO Program headquarters to recognize the HERO Program. The FBI presented certificates of recognition for "outstanding assistance," in which the Program helped gather information for the enforcement agency on a 13-person mortgage fraud ring bust. The FBI's recognition singled out the significant amount of investigative assistance the HERO Program provided, calling the help "immeasurable."

As a result of the examples above and other requests the Program has received, Renovate America formally launched HERO Protect™, which enables homeowners to access our consumer protection services, allowing any consumer in a HERO community to call in with questions or specific concerns about a home improvement project even if not financed by HERO. HERO Protect™ staff will offer information about contractors, investigative and dispute resolution services, or referral to law enforcement.

HERO Protect™ also began our direct training of home improvement contractors on senior consumer protection best practices, building on existing HERO staff follow-up to contractor interactions with homeowners over age 64; it partners with the California Contractor State License Board, and local, state, and federal law enforcement agencies on contractor education, industry standards, and investigations; and it highlights the work of contractors who are operating with high customer satisfaction.

HERO is an industry leader when it comes to strong disclosures and strong consumer protection standards. It sets a high bar for the contracting industry in every marketplace it enters, which other payment options like home equity lines of credit and credit cards are not replicating. WRCOG continues to welcome feedback and opportunities to improve our consumer protection standards to set the bar higher for work done in communities in our region and across the state.

IVAR Position #2: HERO should receive appropriate regulatory scrutiny

Information for when we meet: The State of California, through the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), regional joint powers authorities, and over 300 local government entities all have oversight over the HERO Program.

PACE financing programs like HERO exist in California as a result of state legislation and rules established by local governments on how they function and the HERO Program has exceeded those in terms of consumer protections.

WRCOG, a joint power authority, takes its oversight of the HERO Program very seriously. We closely monitor the performance of Renovate America, our program administrator, through data transparency, performance reviews, and input from community stakeholders. We have requirements and expectations of Renovate America in this unique partnership, and have required reforms and enhancements like the new disclosure format as feedback merits them.

WRCOG's role as the government agency requires daily oversight and full-time staff specifically dedicated to the HERO Program. Our Executive Committee provides insight and approval of HERO Program initiatives and provides direction to staff on all aspects of the Program. This committee is comprised of four County Supervisors, representatives from each of our 17 subregional jurisdictions, the Superintendent of Schools and the Morongo Band of Mission Indians.

In addition, WRCOG signs off on all individual HERO documents and records them against the financed property in-house. We are also responsible for collaborating with jurisdictions to file a quarterly Judicial Validation to ensure that these new jurisdictions entering the program meet the guidelines of the state legislation that created PACE, AB811.

This role extends to customer service: guiding property owners through the HERO Program process, filtering concerns to the appropriate HERO Program division, as well as attending meetings in any of our HERO jurisdictions to attend to any and all HERO matters.

The HERO Program partners with the California Contractor State License Board, and local, state, and federal law enforcement agencies to monitor contractor license status, provide education programs, and assist investigations. To date, the Program has suspended more than 600 individual contractors with inactive licenses from the Program. More than 60 contractors have been suspended for violations of the Program's Code of Conduct which include the consumer protections noted above.

The Program's unique ability to enforce consumer protections, require contractors to cooperate and resolve issues and improve business practices helps homeowners and communities and is unlike any other payment option available in communities.

WRCOG continues to welcome feedback and opportunities to improve rules which we have in place which govern the program.

IVAR Position #3: Refrain from making any claims about loan transferability until lending issues with FHA and FHFA have been settled

Information for when we meet: The FHFA has made its policy position clear. The HERO Program discloses the policy established by the FHFA as well as the ability for the assessment to stay with the property. Not disclosing the ability to transfer would be a misrepresentation.

We disclose both the policy established by the FHFA that the homeowner may have to pay off the balance (see above discussion under "IVAR position #1") as well as the fact that the payment may stay on the property depending on the lender. More than 5,000 homeowners who received HERO financing have subsequently refinanced or sold their home. Over 80 percent, or 4,000 of the 5,000 homeowners who refinance or sell their home, have transferred their assessment without paying it off.

PACE financing was created in California as a property tax assessment that could transfer with the home, in part, to provide incentive to invest in energy and water efficiencies that would remain on the home and provide ongoing utility bill savings to any future owners of the home over the useful life of the product. If HERO was treated like a home equity loan, the remaining home equity loan balance would be required to be paid off at the time of sale. However, because HERO is an assessment, it can legally transfer to the new buyer.

As you point out, since 2010, the Federal Housing Finance Agency (FHFA) has issued multiple statements and correspondence prohibiting Fannie Mae and Freddie Mac from purchasing or guaranteeing any mortgage with a PACE assessment that is senior to the first mortgage. In light of the FHFA position, we have taken extra care to ensure that homeowners are informed of the potential non-transferability upon sale or refinance. And, as mentioned above, we are expanding on those efforts, adding additional disclosures to our Financing Summary document, consolidating the most important disclosures into one, two page document, and requiring the homeowner to initial each disclosure and provide overall sign off. The FHFA disclosure is in all caps and on the bottom of the first page. [See Appendix B].

To assist Realtors, and in response to feedback and requests from your members, the Program created HERO Property Advisors (HPA), a dedicated division of the Program focused on educating real estate professionals about HERO and assisting homeowners and real estate professionals alike during a sale. To date, HPA has conducted 27 education sessions for 1,211 real estate professionals, and five more are currently scheduled in the region in the coming weeks. Our dedicated HPA help line, staffed by licensed real estate professionals, now handles over 4,000 calls per month. HPA affirmatively reaches out to homeowners and their listing agents as soon as a property is listed for sale, to help answer any questions Realtors may have, including options homeowners have (payoff, subordinate or transfer to

new buyer) as well as buyer or lender requirements which may come up (payoff of the balance). No other PACE or financing program goes to these lengths.

As a part of this effort, we have partnered with one of the largest title companies in Riverside County. For each property listing in Riverside County, we provide the listing agent with a copy of Schedule B of the preliminary title report where the HERO assessment is listed. Once again, this partnership is in direct response to feedback we have received from your members in our education sessions.

Additionally, and also in response to feedback from your members, we have also introduced a new option for homeowners – the ability for HERO to be subordinated to an incoming first deed of trust in a sale. The process to request a subordination is simple, done through a subordination instructions form [Appendix D] and costs \$350. Our HPA team makes sure homeowners and listing agents are aware of this option. We rolled out this option in April for all property owners who are selling their home. To date, 10 properties have subordinated their HERO assessment to the incoming first deed of trust. This group includes Fannie and Freddie-backed mortgages. No application for subordination has been rejected by a lender. Although the ability to subordinate is new, it is available to all who have utilized HERO financing.

Finally, it is important to evaluate HERO as compared to other financing options in the marketplace. A PACE borrower is never in a worse position than a borrower taking out loans (or solar leases) for other home improvements. Simply put, HERO offers more options for homeowners. And while, of course, a potential buyer can demand the assessment be paid off as part of the negotiation over a sale of a home, over half of all HERO properties have transferred their assessment to a new buyer in a sale and over 80 percent of homeowners have transferred the balance in the case of refinancing.

As a matter of policy and market behavior, we feel the current disclosures in the Application and the Financing Summary articulate that homeowners may be required to pay off the balance to facilitate a sale or refinance. WRCOG continues to welcome feedback on its disclosures.

IVAR Position #4: Refrains from making general claims about increases in property values until appraisal issues are resolved.

Information for when we meet: The HERO Program recognizes a significant body of research showing the positive impact of energy efficient and solar PV improvements on homes, and supports statements made by Realtors, including the immediate past president of the National Association of Realtors, and as evidenced by the way energy efficiency improved homes are marketed.

While the HERO Program is still relatively new, there are significant data in the marketplace, reflected by trends in the real estate professional community, that affirm both the increased marketability and value of energy efficient homes.

In a May 28, 2014 *Washington Post* article, Steve Brown, 2014 President of the National Association of Realtors, stated that he believes energy efficient improvements will help homeowners "make the property more appealing, more marketable to a future buyer, and secondly, make the property a little bit more valuable than other homes that don't have these energy efficiencies that are in place."¹ Locally, and as applied to HERO, it is clear that, overall, Realtors believe including HERO projects on MLS listings enhances their efforts to market the home. Based on our ongoing and historical analysis of the MLS listings of HERO homes, we find that 80 percent highlight upgrades that are financed through HERO as a

¹ <http://www.washingtonpost.com/pb/news/energy-environment/wp/2015/05/28/how-to-make-the-real-estate-market-value-green-homes-for-what-theyre-really-worth/?resType=accessibility>.

value-add when marketing a property, and that more than one in four Realtors specifically mention when a home has participated in the HERO Program. This clearly implies Realtors view improvements which reduce energy and water bills as a net positive to the value of the home.

While we understand that the impact of PACE and the associated improvement on the resale value of a home is of particular concern to Realtors, we believe there is simply no good evidence that an energy efficient PACE home would sell for less than the value of a non-PACE home. It is important to note at the outset that large numbers of PACE homeowners often take on a PACE assessment where they would have serious deferred maintenance and would have to bear the costs of home improvement or see serious deterioration of value in their home. PACE ensures that they have an affordable financing option that purchases energy efficient replacements products that are certified to be those that maximize ongoing energy or water costs. When someone takes on a PACE assessment – they are making energy or water efficiency improvements that add to the collateral. While certainly many PACE homeowners care about doing their part for the environment, there is no evidence to argue for second-guessing the views of those homeowners that it will add to the value of their house – or, in other words, that the value or predictability of the energy and water savings are equal to or greater than the costs of the assessment. In addition, PACE can assist buyers by providing a separate financing tool that does not impact their lending capacity when purchasing a home. As you know, homes needing improvements are less attractive than homes with improvements. PACE helps to bridge that gap and can be a powerful tool for Realtors.

More broadly, the performance data on the portfolio of HERO assessments is strong, underscoring that the decision by the homeowner to move forward with PACE financing is not creating undue burden. Since December 2011, HERO has completed projects on more than 33,000 homes statewide. Across the pool, HERO has a 99.2 percent on-time payment rate. There have been no tax defaults and only 15 mortgage defaults across the entire pool. While we understand that we have not lived through a full housing cycle, the data are directional and informative, and the HERO pool is outperforming the general mortgage pool in California and in Riverside County.

Finally, a number of research studies have provided empirical evidence of the benefits of PACE-financed improvements on the housing market, as summarized below.

1. **Energy Efficiency and Mortgage Defaults.** Before discussing recent empirical work on the relationship between energy efficient upgrades and home values, it should be noted that projects financed through PACE also have a positive impact on reducing foreclosures. Indeed, a 2013 University of North Carolina and the Institute for Market Transformation conducted a study on a Corelogic sample of 71,000 homes and found mortgage default rates are 32 percent lower on average for energy-efficient homes².
2. **Energy and Water Efficiency and Home Values.** The HERO Program encourages people who need to make improvements to do so in a low cost, energy-efficient and water-conserving way that improves home values. The majority of the projects for which HERO financing is used facilitate replacement of broken, malfunctioning or underperforming products. Homeowners do not have an option other than replacement when faced with leaky windows, an HVAC system that is failing, a roof that allows the outside in and the inside out, and a water-consuming lawn in the midst of an historic drought. Homeowners do not choose to replace these items for the same reasons people choose to replace an old car with a new image-enhancing one. They must be replaced. And so some cost must be borne, whether for efficient upgrades on inefficient ones. A decision not to replace such worn out items not only affects the comfort and connection of owners

² UNC Center for Community Capital and Institute for Market Transformation, 2013. "Research Report: Home Energy Efficiency and Mortgage Risks". <http://ccc.unc.edu/content/items/home-energy-efficiency-and-mortgage-risks/>

with their homes, it also jeopardizes property values by perpetuating a deferred maintenance condition. HERO is an affordable option that addresses these conditions. First, it eliminates the discomfort and deferred maintenance mentioned above. Second, it empowers homeowners to purchase more efficient improvements, whose total cost of operation (purchase price and energy costs) will be less. For instance, homeowners with few options likely will choose the least-costly HVAC replacement, with a total cost of operation that will be more than a more energy-efficient system. It is axiomatic that a SEER 10 HVAC system consumes twice as much energy as does a SEER 20 unit for the same amount of heating and cooling. The total cost of operation for the SEER 20 unit will be substantially less than a SEER 10 system. The HERO Program encourages homeowners to make smart choices, which help everyone, not the least of which are the holders of first mortgages from value preservation and mortgage performance perspectives.

3. Indeed, Analysis of HERO Data indicates that Products Provide Savings that Exceed the Cost of Improvements. Based on a life cycle cost-benefit analysis of more than 33,000 HERO improvement homes using conservative and reasonable assumptions on the escalating cost of utilities, we have found that the HERO savings-to-investment ratio is 1.1 - 1.3 over the lifetime of the product improvements, saving homeowners a total of \$68 - \$251 million after taking into account the utility costs savings and the full financing cost of the improvements. This analysis was conducted using validated energy, water, and renewable generation savings models from the U.S. Department of Energy, Environmental Protection Agency, and National Renewable Energy Laboratory. Primary products included in the analysis span the full range of Renovate America product offerings, including solar PV and renewable energy, HVAC, windows and doors, roofing and building envelope improvements, water-efficient products, and other energy-efficient products.

In the same way that the mortgage industry determines underwriting requirements based on expected performance and benefit at an aggregated level as opposed to a case-by-case basis, Renovate America has designed HERO underwriting and eligibility requirements to ensure a portfolio of high performance assessments that are a good "investment," even when narrowly defined as savings vs. cost.

4. Unlike alternative payment options, the HERO Program requires financing to be applied toward a single purpose – improving the house and saving money on monthly bills through projects that are certified to be energy or water efficient. Other financing options, which are collateralized by the house, such as HELOCs, do not require the funds be invested in the home or money-saving improvements – the funds can be used for virtually anything. By contrast, the HERO Program requires eligible products to be certified energy or water efficient by the Department of Energy, the Environmental Protection Agency, a state government or by a regional body – increasing the value of the home through efficiency upgrades and homeowner pride in being producers of "clean" energy or avoiding community judgment on water use.
5. Several recent studies have demonstrated that energy-efficient projects have both investment value and consumption value in that many households take pride in knowing they are producers of "clean" energy, which often has the added effect of increasing home values net of improvement costs. While we have reviewed research concluding that while some PACE-funded projects did not provide net savings (foregone electricity expenditure per dollar of investment) – we find the studies below demonstrate that, on a portfolio basis, renewable energy and energy and water efficient improvements increase home values.
 - a. Most Comprehensive Analysis of Nearly 23,000 Homes Between 2002-2013 Found Solar Raised Home Values According to the Lawrence Berkeley Lab. The most comprehensive and robust study to date – conducted by Lawrence Berkeley Lab, with the support of the

Department of Energy³ – analyzed 22,822 homes, 3,951 of which have photovoltaic (PV) systems, and found solar consistently adds value across a variety of states, housing and PV markets, and home types. This study doubled the number of transactions analyzed in previous studies and diversified to states other than California. The data spanned the period from 2002-2013 and was sourced from 102 different counties in eight different states, (California, Connecticut, Florida, Massachusetts, Maryland, North Carolina, New York and Pennsylvania). The authors found that:

- i. Homebuyers were consistently willing to pay more for a property with solar PV systems across a variety of states, housing and PV markets, and home types.
 - ii. Average market premiums across the full sample were about \$4/W or \$15,000 for an average-sized PV system, which were consistent with the net cost estimates of the sample (accounting for government and PV incentives).
 - iii. Price premiums were robust in housing market conditions, as the time period spanned the housing boom, bust and recovery.
 - iv. Solar provides a separate consumption value, or what some call a "green cachet." This is evidenced by the highest marginal premiums being associated with the smallest systems. As the system size increased, the marginal (dollar-per-watt) premium decreased. This suggests that buyers are willing to pay a premium for having any size of PV system on their homes and then some increment more depending on the size of the system.
- b. A 2012 Study by UCLA, NYU and UCSD Found That Homeowners on Average Fully Recover Costs of Solar Panels⁴. Researchers from UCSD, UCLA and NYU examined a large sample of solar homes in San Diego and Sacramento and used both a hedonic and repeat sales approach to explore the extent to which solar panels are capitalized into home prices. The study found that on average homeowners fully recover their costs of installing solar panels upon sale of the property due to investment and consumption value. After controlling for observable home characteristics and census tract location, they concluded that there is a solar house price premium and that this premium is larger in environmentalist communities, defined by higher concentration of Prius hybrid vehicles. In San Diego, the predicted value of solar installations yields an increase in home value of \$22,554. This is compared to the average system cost of \$20,892 (taking into account government subsidies and credits).
 - c. A 1998 study in the Appraisal Journal found that the selling price of homes increased by approximately \$20 for every \$1 decrease in annual fuel bills. The implication is that products that yield net savings, such as HERO, will unquestionably have a positive net impact on the value of the property.
 - d. Other studies also found that the solar price premium is comparable to the average investment homeowners have made to install solar systems. These studies used a large

³ Hoen, B., Wiser, R., Adomatis, S., Jackson, T., Graff-Zivin, J., Thayer, M., Klise, G. (2015) Selling into the Sun: Price Premium Analysis of a Multi-State Dataset of Solar Homes. Prepared for the Office of Energy Efficiency and Renewable Energy (Solar Energy Technologies Program), U.S. Department of Energy.

⁴ Dastrup, S.R., Graff Zivin, J., Costa, D. L. and Kahn, M.E. (2012) Understanding the Solar Home Price Premium: Electricity Generation and "Green" Social Status. *European Economic Review*. 56(5): 961-973.

dataset of California homes that sold from 2000-mid-2009⁵ and a smaller sample of solar homes that sold in Denver, Colorado between January 1, 2011 and May 31, 2013.⁶

Conclusion:

As noted above, we would have liked to have met with your team and board to discuss your positions before making them public as they have been derived without direct interaction with us. We would like to coordinate a time when we can meet with you to go through any and all questions that you and your Board have.

WRCOG is working hard to help solve some of the challenges facing our communities and our constituents, with an overall goal to improve the quality of life for those who live here. This includes helping homeowners find ways to permanently reduce their water bill and energy bill which will enable them to save money and enable our communities to conserve our resources and help facilitate future growth and economic development. We believe the Program enables us to do this by enabling homeowners to make voluntary improvements on their own and by creating a framework in which the local workforce must meet a high standard of performance in which consumers have substantially more consumer protection than other payment options. Together, the Program has helped more than 33,000 homeowners make improvements which we estimate will save more than 1 billion gallons of water and more than \$1.5 billion in savings through lower utility bills. The Program has helped create more than 5,000 local jobs in California and in our region – which adds potential homebuyers into the economic development equation – and is helping create a more trusted work environment in which contractors are held to a higher standard and those that are not can no longer work in our communities.

The HERO Program raises the bar for PACE and conventional financing options in our communities. It provides more consumer protections than any other financing option in the marketplace, and creates an affordable option for homeowners to improve their properties and tackle deferred maintenance needs.

We further understand that new solutions require input and feedback from many stakeholders. As such, we have engaged more than 1,000 Realtors and are now providing Schedule B of the preliminary title reports for free for all properties which go onto the MLS and have HERO improvements.

With 95 percent of homeowners recommending HERO to a friend or relative, we believe the Program is providing customers with a positive experience. That being said, we are always committed to improving this Program, as we have done since its launch in December 2011 and as is articulated throughout this correspondence in response to Realtor suggestions. We respond to customer feedback, and to constructive and specific suggestions for improvement as well.

Thank you for your attention to these important matters. Please let us know when you are able to meet so we can discuss these issues further, address any additional points you may have, and work to regain support from IVAR for the HERO Program.

⁵ Hoen, B., Cappers, P., Wiser, R. and Thayer, M. (2011) An Analysis of the Effects of Photovoltaic Energy Systems on Residential Selling Prices in California. Lawrence Berkeley National Laboratory, Berkeley, CA April 2011.

⁶ Desmarais, L. (2013) The Impact of Photovoltaic Systems on Market Value and Marketability: A Case Study of 30 Single-Family Homes in the North and Northwest Denver Metro Area. Prepared for Colorado Energy Office, May 2013.

Appendix A:
HERO Application Form



HERO Financing Program™ Application

P: (855) HERO-411 F: (858) 815-6860 E: info@heroprogram.com

A: 15073 Avenue of Science, Suite 200
San Diego, CA 92128

The Western Riverside Council of Governments (the "Authority") HERO Program (the "Program") finances installation of renewable energy, or energy or water efficiency products, or electric vehicle charging infrastructure that are permanently fixed to a property owner's real property ("Eligible Products"). Eligible Products will be financed upon the signing of an assessment contract between the Authority and the property owner ("Assessment Contract"). The Authority has retained Renovate America, Inc. ("RA") to facilitate the Program, and you will see this name throughout the Program materials. The Authority and RA are referred to collectively therein as "Program Administrator."

Property Owner Acknowledgments

In order to participate in the Program, I understand that I need to meet the qualifications listed below. By signing this Application, I acknowledge and represent to the best of my knowledge that I and any other owner(s) of the property which is the subject of this application (the "Property") meet these qualifications and I authorize the Program Administrator to obtain a credit report for each of the property owner(s) and/or trustees whose social security number is provided on this application.

1. Applicant(s) must be the owner(s) of record of the property;
2. Mortgage-related debt on the property must not exceed 90% of the value of the property;
3. Property owner(s) must be current on their property taxes and there must be no more than one late payment in the past three years;
4. Property owners must be current on all property debt of the subject property at the time of application and cannot have had more than one 30 day mortgage late payment over the previous 12 months;
5. Property owner(s) must not have had any active bankruptcies within the last seven years, and the Property must not be an asset in an active bankruptcy. However, if a bankruptcy was discharged between two and seven years prior, and the property owner(s) have not had any additional late payments more than 60 days past due in the last 24 months, the property owner may be approved; and
6. The property must not have any federal or state income tax liens, judgment liens, mechanic's liens, or similar involuntary liens on the property.

I understand that to qualify for the Program that the following requirements must be met:

- a. The amount to be financed under the Program must be less than 15% of the value of the Property on the first \$700,000 value, and less than 10% of any remaining value of the property thereafter.
- b. The combined amount to be financed under the Program plus the mortgage related debt must not exceed 100% of the value of the Property.
- c. All property owners must sign all required documentation, including but not limited to the application, the Completion Certificate and the Assessment Contract with all other required Financing Documents.
- d. Following approval, my contractor or I must call the Program to identify the Eligible Products I would like to purchase, enter into an Assessment Contract with the Authority, and receive Notification to Proceed from the Program before beginning the installation of any Eligible Products. Products which have not been approved by the Program will not be funded.
- e. Interest rates may change from the approval date to receiving the Notification to Proceed.

By signing this Application, I hereby declare under penalty of perjury under the laws of the State of California all of the following:

1. That the information provided in this Application is true and correct as of the date set forth opposite my signature on the Application and that I understand that any intentional or negligent misrepresentation(s) of the information contained in this Application may result in civil liability and/or criminal penalties including, but not limited to, imprisonment, liability for monetary damages to the Authority, its agents, or successors and assigns, insurers and any other person who may suffer any loss due to reliance upon any misrepresentation which I have made in this Application, or both.
2. I have the authority to authorize the Program Administrator to obtain a credit report for each of the property owner(s) and/or trustee(s) whose social security number(s) is provided on this Application.
3. I understand that it is my responsibility to receive, read and understand all documents comprising the Program, which, in addition to information on the Program website, include the following:
 - a. This Application;
 - b. Privacy Policy Notice;
 - c. Assessment Contract; and
 - d. Program Handbook.

I have had an opportunity to ask Program representatives and/or my legal counsel any questions I have regarding the documents listed above. I understand I will be asked to sign the Assessment Contract, among other documents, as a pre-condition to the closing of the financing.

4. I am applying to participate in the Program. I have the authority, without the consent of any third party, to execute and deliver this Application, the Assessment Contract, and the various other documents and instruments referenced herein.
5. I understand that the financing provided pursuant to the Assessment Contract will be repayable through an assessment levied against the Property. I understand that an assessment lien will be recorded by the Authority against the Property in the office of the County Recorder of the Property County upon execution of the Assessment Contract. The property tax bill (which will include the assessment payments) for the Property will increase by the amount of these assessment installment payments. The Assessment Contract will specify the amount of the assessment, the assessment installments and the interest on the assessment to be collected on the property tax bill for the Property each year during the term specified in the Assessment Contract. The assessment and the interest and any penalties thereon will constitute a lien against the Property until they are paid. As with all tax and assessment liens, this lien will be senior to all existing and future private liens against the Property, including mortgages, deeds of trust and other security instruments.



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Disclosures

The following describes some (but not all) characteristics and risks of participation in the Program as well as laws to which the Program is subject. A full understanding of any item listed below can be gained only by reviewing the relevant laws, policy statements, and/or the contractual documents related to the Program. The Program Administrator is committed to your understanding each of the items listed below before you enter into an Assessment Contract, and invites you to ask Program representatives any questions regarding these items or if you need copies of any document related to the Program.

1. Program Disclosures and Disclaimers.

- a. **Existing Mortgage.** The Program establishes the manner by which the Authority may finance, pursuant to Chapter 29 of Part 3 of Division 7 of the California Streets and Highways Code (commencing with Section 5898.10), the installation of Eligible Products. Eligible Products will be financed pursuant to an Assessment Contract between you and the Authority.

BEFORE COMPLETING A PROGRAM APPLICATION, YOU SHOULD CAREFULLY REVIEW ANY MORTGAGE AGREEMENT(S) OR OTHER SECURITY INSTRUMENT(S) WHICH AFFECT THE PROPERTY OR TO WHICH YOU AS THE PROPERTY OWNER ARE A PARTY. ENTERING INTO A PROGRAM ASSESSMENT CONTRACT WITHOUT THE CONSENT OF YOUR EXISTING LENDER(S) COULD CONSTITUTE AN EVENT OF DEFAULT UNDER SUCH AGREEMENTS OR SECURITY INSTRUMENTS. DEFAULTING UNDER AN EXISTING MORTGAGE AGREEMENT OR SECURITY INSTRUMENT COULD HAVE SERIOUS CONSEQUENCES TO YOU, WHICH COULD INCLUDE THE ACCELERATION OF THE REPAYMENT OBLIGATIONS DUE UNDER SUCH AGREEMENT OR SECURITY INSTRUMENT. IN ADDITION, FANNIE MAE AND FREDDIE MAC, THE OWNER OF A SIGNIFICANT PORTION OF ALL HOME MORTGAGES, STATED THAT THEY WOULD NOT PURCHASE HOME LOANS WITH ASSESSMENTS SUCH AS THOSE OFFERED BY THE AUTHORITY. THIS MAY MEAN THAT PROPERTY OWNERS WHO SELL OR REFINANCE THEIR PROPERTY MAY BE REQUIRED TO PREPAY SUCH ASSESSMENTS AT THE TIME THEY CLOSE THEIR SALE OR REFINANCING.

If your lender requires an impound for your property taxes, please consider notifying them of the annual assessment payment amount so they can adjust your impound amount.

- b. **Interest Rate.** You will be charged a fixed interest rate on your total financed amount. Your interest rate will be set at the time your financing documents are issued. Interest rates may change from the approval date to the date the Notification to Proceed is sent.
- c. **Program Administration Fee.** At the time of closing, the Authority will charge you a one-time administration fee of 4.99% of the principal amount of the assessment on the Property to cover the costs of administering the Program. This fee will be added to the assessment amount.
- d. **Recording Fee.** At the time of closing, the Authority will pass-through the assessment recording fee of approximately \$95 to you to cover the costs of recording the assessment. This fee will be added to the assessment amount.
- e. **Assessment Administration Fee.** Each year, an annual assessment administrative fee will be added to the assessment lien amount on your property tax bill. Currently these costs are \$35 and there will be adjustments in subsequent years for cost of living increases, not to exceed \$95.
- f. **Interest Before First Payment:** Based on the date an assessment is recorded on your property the payment of assessment installments may not begin until the following year's property tax bill. As a result interest will be added to the assessment amount for the period between your closing date and the date of your first assessment payment. The maximum amount of interest will be listed on your Final Payment Summary, which will be provided with your financing documents.
- g. **Automated Valuation Model Disclosure.** You have the right to a copy of the automated valuation model (AVM) report used in connection with your application for credit. If you want to obtain a copy, please email or write to us at the address we have provided. We must hear from you no later than 90 days after we provide you with a notice of the action taken on your application or a notice of incompleteness, or in the case of a withdrawn application, 90 days after the withdrawal. An AVM is not an appraisal. It is a computerized property valuation system that is used to derive a real property value.
- h. **Foreclosure.** Not later than October 1 each year, the Authority shall determine whether any annual assessment installment is not paid when due and shall have the right and obligation to order that any such delinquent payment, penalties, interest, and associated costs be collected by an action brought in Superior Court to foreclose the lien of such delinquent assessment installment in the manner provided and to the extent permitted by applicable law.
- i. **Prepayment.** You have the option to pay off your assessment amount at any time in full, or in any amount of at least \$2,500. A prepayment is calculated to include the principal amount of the assessment to be prepaid (Assessment Prepayment Amount) and interest on the Assessment Prepayment Amount to the earlier of March 2nd or September 2nd occurring at least 50 days following the date the prepayment is made.
- j. **No Endorsement, Warranty or Liability.** The Authority, Renovate America, Inc., and the Program do not endorse any manufacturer, contractor, product, or system, or in any way warranty such equipment, installation, or the efficiency or production capability of any equipment. The Authority, Renovate America, Inc. and the Program make no representations and have no responsibility regarding the equipment and its installation, including the quality, safety, cost savings, efficiency or production capability of any equipment; or any compliance of the equipment or its installation with any applicable laws, regulations, codes, standards or requirements. Further, the Authority, Renovate America, Inc. and the Program shall not be in any way liable for any incidental or consequential damages resulting from the equipment or its installation.



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k. **Validation.** The Program may validate that installed Eligible Products meet Program eligibility requirements including requiring the applicant to provide additional sales receipts, contractor invoices, serial numbers or other identifying details, portions of packages or stickers originally attached to the installed Eligible Products beyond what the Program already requires to be provided. The Program reserves the right to perform independent on-site validation(s) of any Eligible Products financed by the Program even if permit inspections have already been completed. If a validation visit is required, Program staff will schedule any such on-site validation visit with the property owner, at any reasonable time and with reasonable notice. In addition, the Program reserves the right to perform online monitoring of any installed renewable energy systems' generation data, if applicable, as well the tracking of energy consumption impacts and utility usage for any installed/financed product via property utility bill data. You, by submitting this application, consent to any such onsite validations, online monitoring, and utility bill energy usage analysis. By submitting this application, you also agree to sign the authorization form to participate in utility billing energy usage analysis to measure Program impact savings and participant satisfaction.

2. Legal Disclosures

- a. **Equal Credit Opportunity Act (ECOA).** The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against Credit Applicant(s) on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant(s) income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this creditor is the Federal Trade Commission, Division of Credit Practices, Washington, D.C. 20580.
- b. **Fair Credit Reporting Act.** As part of assembling your Program application, the Authority has requested a consumer report bearing your credit worthiness, credit standing and credit capacity. This notice is given to you pursuant to the Fair Credit Reporting Act.
- c. **The Housing Financial Discrimination Act Of 1977.** It is illegal to discriminate in the provision of or in the availability of financial assistance because of the consideration of:
 - i. trends, characteristics or conditions in the neighborhood or geographic area surrounding a housing accommodation, unless the financial institution can demonstrate in the particular case that such consideration is required to avoid an unsafe and unsound business practice; or
 - ii. race, color, religion, sex, marital status, domestic partnership, national origin or ancestry.
- d. **Patriot Act Disclosure.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: As part of applying to the Program, the Authority may be required to ask for your name, address, date of birth, and other information that will allow it to identify you. The Authority may also need a copy of the driver's license or other identifying documents from any and all borrowers and guarantors.
- e. **Communications with Legal Advisers.** If you have any questions about any agreements or security instruments which affect the Property or to which you are a party, or about your authority to execute the Program Application or enter into an Assessment Contract with the Authority without the prior consent of your existing lender(s), the Program strongly encourages you to consult with your own legal counsel and your lender(s). Program staff cannot provide you with advice about existing agreements or security instruments.
- f. **Monitoring and Recording Telephone Calls.** The Program may monitor or record telephone calls for security and customer service purposes. By applying for HERO Financing, you consent to have any phone conversations with the Program recorded or monitored.

Property Owner Signature(s)

I declare that (i) I have received, read and understand the risks and characteristics of the Program described in the Property Owner Acknowledgments and Disclosures set forth in this Application and (ii) I have been informed that I must take the sole responsibility to satisfy myself that executing the Assessment Contract, receiving financing for Eligible Products, and consenting to the assessment levied against the Property will not constitute a default under any other agreement or security instrument (specifically the terms of any mortgage on the Property) which affects the Property or to which I am a party.

Property Owner 1 Signature

Date

Property Owner 2 Signature

Date

Property Owner 3 Signature

Date

Property Owner 4 Signature

Date



HERO Financing Program™ Application

P: (855) HERO-411 F: (858) 815-6860 E: info@heroprogram.com

A: 15073 Avenue of Science, Suite 200
San Diego, CA 92128

FOR CONTRACTOR CALL IN ONLY

Contractor ID#

HERO ID#

Property Address

Property Type: Single Family Home Condo/Townhome Manufactured/Mobile Home Multi Family Home (1-3 units)

Property Address

City

State

Zip Code

Property Owner

Ownership Type: Individual Joint Trust Corporation/LLC/etc. Other: _____

First Name

M. Initial Last Name

Social Security Number

DOB

Month

Day

Year

Phone Number

Email Address

Mailing Address (if different from Property Address)

City

State

Zip Code

Property Owner 2

First Name

M. Initial Last Name

Social Security Number

DOB

Month

Day

Year

Property Owner Signature(s)

I declare that I have the authority, without the consent of any third party which has not been previously obtained, to execute and deliver the Application, Assessment Contract, and the various documents and instruments referenced therein.

Property Owner 1 Signature

Date

Property Owner 2 Signature

Date

Property Owner 3 Signature

Date

Property Owner 4 Signature

Date

If you do NOT wish to receive email communications from the Program and would prefer all communications to occur through the U.S. mail instead, please contact us.

Please check this box if you do NOT want to receive newsletters or other marketing materials from the Program or Renovate America, Inc.

Appendix B:
Updated HERO Financing Summary Form



HERO Financing™ Summary

P: (855) HERO-411 F: (858) 815-6860 E: info@heroprogram.com A: 15073 Avenue of Science, San Diego, CA 92128

Date: 07/22/2015
Property Owner(s): James Smith
Property Address: 1234 Hawthorne, Oceanside, CA 92058

HERO ID: RSD12345N
Application Date: 07/06/2015
Expiration Date: 11/09/2015

ESTIMATED FINANCING SUMMARY

Based on a project completion date of 11/09/2015¹

HERO Eligible Products

Eligible Product Type		Requested Product Amount
1	Building Envelope - Air Sealing	\$5,000.00
2	High-Efficiency HVAC - Central Air Conditioner	\$15,000.00
Total Requested Product Amount		\$20,000.00
HERO Program administration costs and recording fees, including consumer protection benefits ²		\$1,298.63
Interest before first payment ³		\$2,120.76
Total Amount to be Financed		\$23,419.39

Estimated HERO Payment to Contractor (HERO pays to contractor or other payee upon project funding)	\$20,000.00
---	--------------------

- All amounts are estimates based on a project expiration date of 11/09/2015. Actual amounts will be calculated based on the actual project completion date, and will be listed on the Final Payment Summary.
- Program costs to provide financing for your improvement. These costs include Municipal Bond Issuance costs and the cost of processing your paperwork. It also includes the fees paid to the County to record and process the financing documents.
- This is the Interest accrued from your estimated project completion date and your first HERO payment.

Estimated Financing Summary

Your payments will be added to your property tax bill for 15 years. If your project funds on or before June 30, 2016, your first payment will be included on your November 2016 tax bill. If your project funds after June 30, 2016, your first payment will be included on your November 2017 tax bill. This summary does not include potential tax benefits or energy savings and is subject to change based on the actual project completion date.

Financing Term	Interest Rate	Estimated Annual Amount Added to Property Tax Bill	PO Initial
15 years	8.15%	\$2,796.19	

Acknowledgement of Receipt

I UNDERSTAND: IF I REFINANCE MY HOME, MY MORTGAGE COMPANY MAY REQUIRE ME TO PAY OFF THE REMAINING BALANCE. IF I SELL MY HOME, THE BUYER OR THEIR MORTGAGE COMPANY MAY REQUIRE ME TO PAY OFF THE REMAINING BALANCE.

PO Initial



I understand: My payments will be added to my property tax bill. If I pay my property taxes through my mortgage using an impound account, I need to save an estimated \$2,796.19 for my first HERO payment in November 2016, after which my monthly mortgage payment should adjust to cover my increased property tax bill.

PO Initial

I understand: I should consult my tax advisor regarding tax credits, tax deductibility, and for other tax benefits of the HERO Program; and I am responsible for submitting appropriate documentation with my tax return.

PO Initial

I hereby acknowledge reading and receiving a copy of this Estimated HERO Financing Summary.

James Smith

Date

Property Owner 2

Date

Property Owner 3

Date

Property Owner 4

Date



Appendix C:

Existing HERO Consumer Protection Policies Enumerated

HERO PROTECT™

The Home Energy Renovation Opportunity (HERO) Program has the following consumer protections, including 20 which are unique to HERO and not offered by other home improvement lending options, such as home equity loans or credit cards.

Homeowner Financial Stability

Must have a minimum of 10% equity on the property

Mortgage debt plus total amount financed cannot be greater than the value of the property

Homeowner is current on property tax payments

Homeowners are current on mortgage debt

Homeowners have not been late (maximum of 30 days) more than once over the preceding 12 months

No homeowner applicant has had any active bankruptcies within the last 7 years; provided, however, that this criterion can be met if a homeowner's bankruptcy was discharged between two and seven years before the application date, and the homeowner(s) have had no payments (non-mortgage) past due for more than 60 days in the most recent [24 months]

Homeowner(s) have no involuntary lien(s) recorded against the Property in excess of \$1,000.

Maximum Financing Amount (UNIQUE TO HERO)

The financing may not exceed (i) fifteen percent (15%) of the FMV of the Property, up to the first seven hundred thousand dollars (\$700,000) of the Property's FMV, and (ii) ten percent (10%) of the remaining value of the Property above seven hundred thousand dollars (\$700,000)

Total amount of annual property taxes on property cannot exceed 5% of the value of the home

Terms (UNIQUE TO HERO)

Term cannot exceed useful life of improvement

Interest rates must be fixed (no variable interest rates)

Fully amortizing payment (no negative amortizing payments that the lending industry offers)

Product Requirements (UNIQUE TO HERO)

Renewable energy products must meet standards established by the California Energy Commission

Energy efficient products must meet standards established by the U.S. Department of Energy

Water efficient products must meet standards established by the U.S. EPA Water Sense standards or standards established by regional water districts or agencies

Contractor Requirements (UNIQUE TO HERO)

Proper license with the California State Contractors License Board

Maximum pricing for projects

Workmanship Requirements (UNIQUE TO HERO)

Permits must be obtained

Payment made only after project has been completed

Payment made only after homeowner has signed off that project has been completed to their satisfaction

Protected Class Requirements

All homeowners must be treated equally

Senior protections

Disclosures

Program overview, terms of financing, amount financed, annual payment amount, interest rate, APR, improvements financed, property tax repayment process, possible tax benefits, FHFA payoff risk, right to cancel, privacy, federal disclosures, foreclosure remedy, prepayment option.

Three-day right to cancel

Marketing and Communication

Prohibit program marketing practices that are or could appear to be unfair deceptive, abusive, misleading, that violate laws, that provide tax advice, and inappropriate.

Contractor marketing and communication oversight and regulation.

Payoff Options

Payoff at any time

No prepayment fees

Subordination at time of sale (UNIQUE TO HERO)

Subordination at time of refinancing (coming soon)

Management of Inquiries and Complaints (UNIQUE TO HERO)

Inquiries and complaints are logged by category, by contractor and by individual

Onsite inspections are performed

Complaints are resolved

Enforcement and Remedies Imposed On Contractors (UNIQUE TO HERO)

Contractors are suspended and terminated if they don't follow the rules

Individuals are suspended and terminated if they do not follow the rules

Material transgressions are delivered to the CSLB and the District Attorney's office

Appendix D:
Subordination Instructions Form

Subordination Instructions

The HERO Program will facilitate requests to subordinate its assessment to a new deed of trust(s) as an accommodation to homebuyers and lenders. This solution is available at the time of sale only. The subordination transaction fee is \$350 payable at the close of escrow.

Subordination Conditions

The following conditions must be met to qualify for subordination

1. New mortgage must be from an institutional lender (e.g., no hard money or private party)
2. Subordination must be required to facilitate the close of a sale transaction

Subordination Processing

Step 1. To initiate the subordination process, please call HERO Property Advisors at 855-CAL-HERO and request subordination. Our Property Advisors will record your subordination reservation, send the Request for Subordination Worksheet, and answer any questions you may have

Step 2. Complete the following documents and send to HERO Property Advisors via email or mail

HPAsubordinations@heroprogram.com or HERO Program
15073 Avenue of Science, San Diego, CA 92128
Attn: HERO Property Advisors

- a) Complete copy of lenders approval or commitment letter, including lender name and address and reflecting terms of financing
- b) Copy of the Loan Application (1003)
- c) Copy of Appraisal
- d) Copy of Consumer Credit Report
- e) Copy of Preliminary Title Report
- f) Copy of Estimated HUD1 Settlement Statement
- g) Credit Acknowledgement for HERO Subordination (Signed by the Buyer(s))

Step 3. Subordination Agreement will be prepared, signed by the Program, notarized and delivered to escrow.

Step 4. Borrowers sign Subordination Agreement in the presence of a notary. Program is not filed that agreement is fully executed.

Step 5. At the close of escrow, Subordination Agreement is recorded against the property

Credit Acknowledgment for HERO Subordination

To be signed by buyers of property Email to HPASubordinations@heroprogram.com or mail to HERO Program, 15073 Avenue of Science, San Diego, CA 92128, Attn: HERO Property Advisors

Buyer Owner 1 Full Name (First, Middle, Last)

Buyer Owner 2 Full Name (First, Middle, Last)

Buyer Owner 3 Full Name (First, Middle, Last)

Buyer Owner 4 Full Name (First, Middle, Last)

Property Address Street Address

City

State

Zipcode

The HERO Program will facilitate requests to subordinate its assessment to a new deed of trust(s) as an accommodation to homebuyers and lenders

In order to process a subordination request, the Program requires certain documents which are provided by escrow. **With your permission which is acknowledged by your signature(s) below, your Consumer Credit Report(s) will be provided to the Program.** This allows the Program to obtain necessary documents without making a secondary inquiry on your Consumer Credit Reports

By signing, I/we understand and acknowledge that the HERO Program Administrator will receive, and maintain on file, consumer credit report(s) for each of the buyer(s) and/or trustees listed above.

Signatures

Buyer 1

Date

Buyer 2

Date

Buyer 3

Date

Buyer 4

Date