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Executive Summary of the Residential PACE Financing Rule

On December 17, 2024, the Consumer Financial Protection Bureau (CFPB) issued the Residential Property Assessed Clean Energy (PACE) Financing final rule.¹ The final rule:

- amends Regulation Z's exclusion of tax assessments and tax liens from the definition of credit to clarify that voluntary tax assessments and tax liens, such as PACE financing, are not excluded under TILA and Regulation Z;
- recognizes PACE financing as meeting the definition of credit under TILA and Regulation Z;
- prescribes ability-to-repay requirements for residential PACE financing; and
- makes other amendments and exemptions to make clear how other rules in Regulation Z apply to PACE financing.

This final rule implements a rulemaking requirement for the CFPB in the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). The final rule is effective on March 1, 2026.

¹ This is a Compliance Aid issued by the Consumer Financial Protection Bureau. The CFPB published a Policy Statement on Compliance Aids, available at <https://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/policy-statement-compliance-aids/>, that explains the CFPB's approach to Compliance Aids.

Covered transactions

The final rule applies to residential PACE financing. The final rule generally covers “PACE transactions,” which the rule defines as financing to cover the costs of home improvements that result in a tax assessment on the real property of the consumer. Covered PACE transactions are voluntary transactions repaid through the property tax system alongside the consumer’s other property tax payment obligations.

While Regulation Z excludes certain tax liens and tax assessments from TILA coverage, the final rule clarifies this exclusion applies to *involuntary* tax liens and *involuntary* tax assessments. Because PACE transactions are voluntary financial obligations, the final rule makes clear that TILA and Regulation Z do not exclude these transactions. Additionally, because PACE transactions meet the definition of “credit” in existing Regulation Z, the final rule clarifies that they are subject to the provisions of TILA and Regulation Z.

Covered creditors and PACE companies

Generally, the requirements in the final rule apply to creditors, as that term is currently defined in Regulation Z. For example, local government sponsors of PACE programs are typically the creditors in PACE transactions.

Most PACE creditors enlist private companies to administer their PACE programs. The final rule defines “PACE company” as a person, other than a natural person or a government unit, that administers the program through which a consumer applies for or obtains a PACE transaction. The final rule includes factors that may indicate a person administers a PACE program, such as:

- marketing PACE financing to consumers;
- developing or implementing policies and procedures for the origination process;
- being substantially involved in making a credit decision; or
- extending an offer to the consumer.

For example, a PACE company includes private companies that administer PACE programs, but generally does not include a home improvement contractor, as these contractors typically do not administer PACE programs. Similarly, a PACE company generally does not include parties that merely accept PACE transaction applications because accepting applications alone generally would not constitute administering a PACE program.

In addition to the creditor for the PACE transaction, PACE companies that are substantially involved in making credit decisions for PACE transactions are subject to mortgage-related ability-to-repay requirements in Regulation Z, as discussed further below. Under the final rule, a PACE company is “substantially involved” in making the credit decision if the company makes the credit decision, makes a recommendation as to whether to extend credit, or applies criteria used in making the credit decision. A PACE company is not substantially involved in making the credit decision if it merely solicits applications, collects application information, or performs administrative tasks. PACE companies that are substantially involved in making the credit decision for a PACE transaction are subject to TILA civil liability provisions for failure to comply with the ability-to-repay requirements.

General TILA and Regulation Z applicability

As explained in the final rule, PACE transactions are credit under TILA and Regulation Z. As such, the requirements in TILA and Regulation Z will generally apply to covered PACE transactions as they do to other consumer credit transactions secured by real property. For example, the Home Ownership and Equity Protection Act (HOEPA) requirements as implemented in Regulation Z may apply to PACE transactions that are high-cost mortgages as defined in the existing regulation.

The final rule provides two exemptions. First, the final rule exempts PACE transactions from the Higher-Priced Mortgage Loans (HPML) Escrow Rule. The prohibition against extending certain HPMLs unless an escrow account is established before consummation will not apply to PACE transactions that would otherwise be subject to the HPML Escrow Rule requirements.

The final rule also exempts PACE transactions from periodic statement requirements in the Mortgage Servicing Rule.

Ability-to-Repay requirements

The final rule excludes PACE transactions from eligibility for the qualified mortgage categories in the ATR/QM Rule, but does not exclude them from the ability-to-repay requirements of the ATR/QM Rule. The final rule requires creditors and PACE companies substantially involved in making the credit decision to apply the existing ability-to-repay requirements in the Ability-to-Repay/Qualified Mortgage (ATR/QM) Rule for mortgages to PACE transactions. However, to account for the unique nature of PACE transactions, the final rule makes certain adjustments to the ability-to-repay requirements when applied to covered PACE transactions.

For the ability-to-repay requirements, the final rule requires creditors and PACE companies to:

- make a reasonable and good faith determination of a consumer’s ability to repay at or before consummation of a covered mortgage loan;
- consider the eight required factors in making the repayment ability determination; and
- verify the information relied on in determining a consumer’s repayment ability using reasonably reliable third-party records.

The final rule addresses how the existing ability-to-repay requirements may be applied to PACE transactions. One of the eight required factors for repayment ability determination requires consideration of the consumer’s payment obligation on any simultaneous loan that the company knows or has reason to know will be made at or before consummation of the covered transaction. The final rule clarifies that the creditor of a PACE transaction knows or has reason to know of any simultaneous loans that are PACE transactions if the PACE transactions are included in any existing database or registry of PACE transactions that includes the property location’s geographic area and to which the creditor has access. This may be relevant for loan splitting or loan stacking of PACE transactions.

Another existing factor for repayment ability determination requires consideration of the consumer’s monthly payment amount for the transaction. In PACE transactions, payments are generally due in annual or bi-annual intervals, given that the payments are made as part of the consumer’s tax assessment. Further, rather than being paid directly by the consumer to the taxing authority, these payments may be made through an escrow account on the consumer’s pre-existing mortgage loan. The addition of the PACE transaction payments to a pre-existing escrow account can result in escrow shortages or deficiencies (as well as increased escrow cushion payments), which can result in a spike in the consumer’s periodic escrow account payment. The final rule requires creditors and PACE companies to consider increases to the consumer’s escrow account payment as part of their repayment ability determination for the PACE transaction if they know or have reason to know that the PACE transaction will increase the consumer’s escrow account payment by an amount that is not otherwise captured in the required ability-to-repay calculations.

The final rule also makes clear that pre-existing PACE transaction payments are considered property taxes for purposes of the definition of “mortgage-related obligation” as used in the existing ability-to-repay requirements.

The final rule also clarifies the third-party record verification requirement. The existing requirement provides that, in verifying mortgage-related property taxes, a creditor may reasonably rely on information if it was provided by a government organization, such as a taxing authority or local government. The final rule specifies that, if a creditor knows or has reason to know of an

existing PACE transaction for the consumer, but its verification of existing mortgage-related obligations by a governmental organization does not reflect the PACE transaction, the creditor does not comply with the third-party record verification standard when relying on information provided by the governmental organization, either directly or indirectly, that does not reflect the PACE transaction. For example, during a mortgage application a consumer may inform a mortgage creditor of an existing PACE transaction, giving the mortgage creditor knowledge of a PACE transaction. Alternatively, a creditor may search relevant PACE databases for the property address listed in the consumer's application and identify a PACE transaction not listed on the title report. In either case, the creditor would know or have reason to know of a PACE transaction, and as a result, may not solely rely on the title report for verification as required by the ability-to-repay requirements if the PACE transaction does not appear in the property tax records or property tax information in the title report. This clarification applies regardless of whether a PACE transaction or non-PACE transaction is being originated.

TILA-RESPA Integrated Disclosure requirements

The final rule adds a model Loan Estimate and Closing Disclosure for use with PACE transactions, as well as a Spanish-language translation of each.

The final rule also includes certain modifications, clarifications, and exemptions related to disclosures in the Loan Estimate and Closing Disclosure requirements to account for the unique nature of PACE transactions. For example, these include provisions related to:

- The Projected Payments Tables' disclosure of amounts comprising the periodic payment, and the escrow account and taxes, insurance, and assessment disclosures to include exemptions and modifications.
- The Contact Information Tables to require inclusion of PACE company contact information.
- The Other Considerations Table in the Loan Estimate and the Loan Disclosures Table in the Closing Disclosure to include additional or alternative disclosures related to the "Late Payment," and "Assumptions" disclosure in both forms, the "Servicing" disclosure in the Loan Estimate, and the "Partial Payment" disclosure in the Closing Disclosure.
- The Transaction Information disclosures on the Closing Disclosure to add disclosures about the PACE company.

- The Other Disclosures Table’s “Liability After Foreclosure” disclosure in the Closing Disclosure to provide modifications to the disclosure.
- Exemptions from the requirement to provide the Escrow Account Table and related information on Page 4 of the Closing Disclosure.
- Exceptions and modifications to 1) permit applicable unit-period tailoring, such as in the Loan Terms and Projected Payments Tables and 2) permit the use of a specific PACE financing program name that will be recognizable to the consumer in place of the term “PACE,” which is used in the new model forms.