

Discussion of Bellon, LaPoint, Mazzola and Xu "Picking Up the PACE: Loans for Residential Climate-Proofing"

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Great topics

- ▶ **Climate** & Housing & Credit Markets

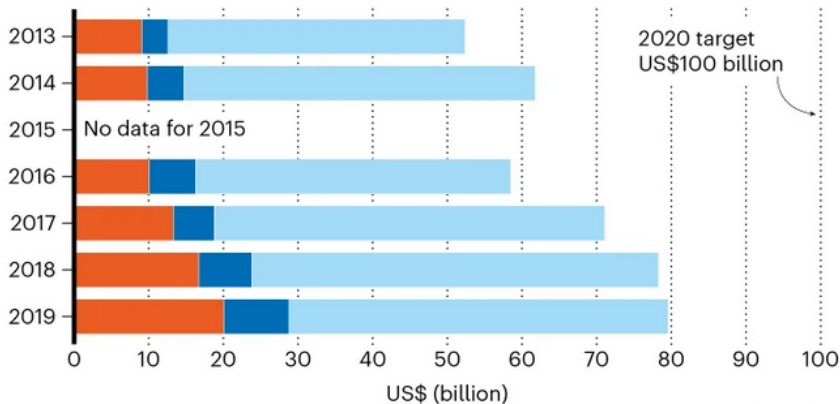
Very interesting paper

- ▶ Great database & analysis
- ▶ Important policy implications
- ▶ Research with impact on society

ADAPTATION LAGGING

Most public climate financing to developing nations has gone to projects that reduce carbon emissions, rather than helping people adapt to climate change.

■ Adaptation ■ Cross-cutting* ■ Mitigation

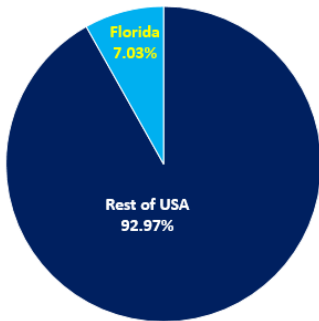


*Relevant to adaptation and mitigation.

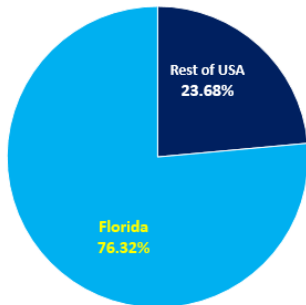
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Comment #1: Opportunistic behavior in Florida

Homeowners' Insurance Claims



Lawsuits



Source: [TheFloridaScorecard.org](https://www.thefloridascorecard.org), 2022 data

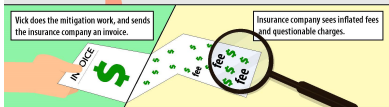
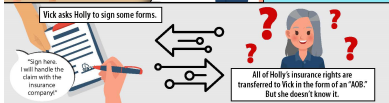
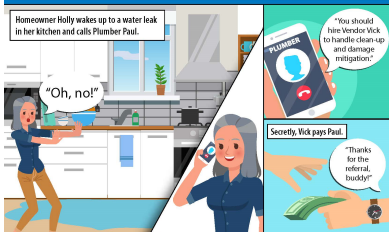
Example of lawsuit abuse

- ▶ Assignment of Benefits (AOB) is a legal tool that allows policyholders to transfer their insurance claim rights to a third party, often a **contractor** or repair company

- ▶ Contractors and some attorneys would take over claims, inflate the costs of repairs or even unnecessary repairs, and then sue insurance companies if the inflated bills were not fully paid

Stopping home repair scams starts with understanding how they work.

How Assignment of Benefits (AOB) Abuse Happens



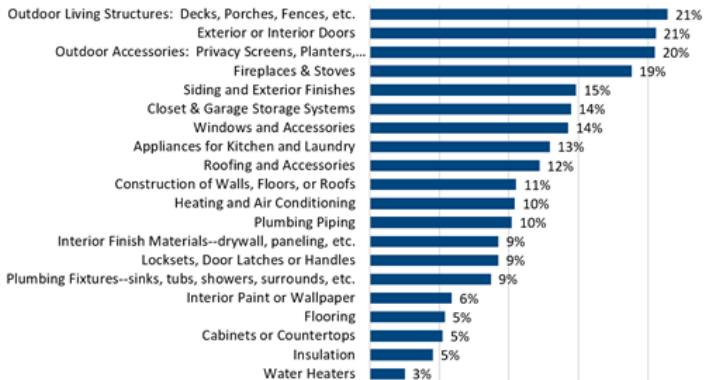
- ▶ Potentially biased estimates because OV or Sample Selection
- ▶ External validity of a Florida paper

- ▶ Do we see evidence of predatory contractors inflating budgets? Do PACE borrowers overborrow?
- ▶ Can we check if PACE counties have more insurance claims?
- ▶ Are PACE outcomes different depending on who is the administrator (local gov. vs private non-profit vs for-profit)?

Comment #2:

- ▶ Sample covers from 2015 to 2023
- ▶ COVID encouraged large housing improvements
- ▶ How important is the COVID period for the results?

Year Over Year Percentage Increase in Households Underaking Home Improvement & Repair Projects, 2019 to 2020



Source: Annual Consumer Practices Reports, Home Innovation Research Labs

Comment #3: Massive increase in defaults

- ▶ <<We show that households taking up a PACE loan are more likely to be delinquent on their property tax bills by 1 p.p. (a 12% increase) within a year of origination, and by 2.5 p.p. (a 30% increase) within three years of origination, relative to HELOC borrowers with comparable properties>>
- ▶ Can we do cost evaluation ignoring default costs?

$$\Delta R_{t,t+1} = \underbrace{\tau_{t+1}}_{\text{local tax rate}} \times \left(\underbrace{\Delta P_{t,t+1}}_{\text{capitalization effect}} - \underbrace{\Delta D_{t,t+1} \cdot P_t}_{\text{revenue lost from delinquency}} \right) \quad (5.1)$$

- ▶ Add bankruptcy costs and negative externalities of delinquencies.
 - ▶ See Guren & McQuade (2020)

Comment #4: Are homeowners better-off?

- ▶ Housing values increase, property taxes too
- ▶ Income does not increase
- ▶ What is aggregate impact on housing costs? Check energy or insurance savings,

Comment #5: Crowding-out on home improvements loans?

- ▶ HMDA defines six purposes codes:
 - ▶ Home purchase
 - ▶ Home improvement
 - ▶ Refinancing
 - ▶ Cash-out refinancing
 - ▶ Other purpose
 - ▶ Not applicable

TABLE 6. Impact of PACE Adoption on Mortgage Credit Supply

Dep. Variable:	Accept						PriSec (7)	RateSpread (8)
	(1)	(2)	(3)	(4)	(5)	(6)		
<i>PACEadoption_{c,t}</i>	0.053*** (0.001)	0.024*** (0.002)	0.022*** (0.004)	0.021*** (0.005)	0.030*** (0.004)	0.002 (0.004)	0.018*** (0.005)	0.091*** (0.031)
Loan type	Purchase	Purchase	Purchase	Refi	Purchase	Purchase	Purchase	Purchase
Borrower Sample:	All	All	All	All	High-risk	Low-risk	All	All
Observations	1,565,090	1,564,554	1,564,554	1,414,311	1,015,837	548,275	1,286,658	121,937
R-squared	0.036	0.094	0.094	0.185	0.096	0.107	0.519	0.341
Borrower Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Census tract FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lender FE	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Mean Dep. Var.	0.829	0.829	0.829	0.683	0.819	0.847	0.329	1.936

Conclusions

- ▶ Great topic
- ▶ Very promising paper
- ▶ Keep working on this research agenda!