

Reviewing Properties with Solar Panels

August 2024



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Solar Power Trends

The use of solar power has been growing rapidly in recent years

- Solar power installations rose by 34% between 2020 and 2021 and they continue to rise by roughly 13% each year*
- Federal and state tax credits are helping to reduce the installation and equipment costs
- Homeowners are choosing solar to lower their energy costs



*U.S. Energy Information Administration (EIA) and the Solar Energy Industries Association (SEIA)

Solar Usage

Solar power makes up what percentage of California's total energy usage?

- a. 11%
- b. 18%
- c. 27%
- d. 33%

c. 27%

Other states with high solar power usage include:

Texas	Georgia
Florida	New Jersey
North Carolina	Virginia
Arizona	New York
Nevada	



All data sources from SEIA/Wood Mackenzie Power and Renewables Solar Market Insight®
2022 Year in Review Report

Solar Power Equipment

It's important to understand the ownership and debt financing structures commonly found with solar panels

- Is the equipment owned outright (or will it be owned outright)?
- If the equipment is owned, is there financing attached to it?
- If financed, what is serving as the collateral?
 - The equipment
 - Both the equipment and the subject property
- Is the borrower leasing the equipment through a third party?
- Is the equipment part of a **power purchase agreement**?



Borrower-Owned Equipment

Owned Equipment

A borrower may own the equipment outright or they may be purchasing a home with existing equipment

- Ensure the appraiser has accurate information about the ownership of the solar panels and the appraisal addresses any impact the equipment has on the property's value
- **The appraiser may consider the solar panels in the property value**
- *If the ownership status of the panels is unclear, the value of the panels should not be included in the appraised value unless a UCC “personal property” search confirms the solar panels are not claimed as collateral by any non-mortgage lender*



Financed Equipment

Financed Equipment

According to the Solar Energy Industries Association (SEIA), the average solar panel system (plus installation) costs around \$25,000

- Many homeowners elect to finance the cost of the system through an equipment provider
- In most cases, the equipment is the collateral for the loan



Financed Equipment

Evidence of financing can appear in several places and the terms of any financing must be verified

- Credit report
- Title search / title commitment
- Any UCC-1 financing statement
- Related note or security agreement

When the solar panels are collateral for the financing, the appraiser should not include the value of the solar panels in the appraised value



Equipment and Property as Collateral

In some cases, the panels are collateral for the financing but are also considered a fixture to the real estate

- The title report will reflect a **UCC-1 fixture filing** recorded against the property in the land records
- Review the credit report, appraisal, the UCC-1 financing statement filing, and any related promissory note/security agreement



What are UCC-1 Filings?

Uniform Commercial Code (UCC) filings are public notices filed by creditors to declare their rights to the collateral listed on the filing

- Filed with the respective Secretary of State office but may also be recorded in the land records like a mortgage or deed of trust
- UCC filings may list just the equipment as collateral and, in some cases, may also list the real estate *and* equipment (UCC fixture filing)



UCC-1 Filings?

- UCC filings are public and available through each Secretary of State website
- The *National Association of Secretary of States* (NASS) website has links to each individual state site: <https://www.nass.org/business-services/ucc-filings>

UCC Financing Statements may vary by State, this is for illustration purposes only.

UCC FINANCING STATEMENT
FOLLOW INSTRUCTIONS

A. NAME & PHONE OF CONTACT AT FILER (optional)

B. E-MAIL CONTACT AT FILER (optional)

C. SEND ACKNOWLEDGMENT TO: (Name and Address)

Print **Reset**

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. **DEBTOR'S NAME:** Provide only aaa Debtor name (1a or 1b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 1b, leave all of item 1 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

1a. ORGANIZATION'S NAME

OR

1b. INDIVIDUAL'S SURNAME FIRST PERSONAL NAME ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2. **DEBTOR'S NAME:** Provide only aaa Debtor name (2a or 2b) (use exact, full name; do not omit, modify, or abbreviate any part of the Debtor's name); if any part of the Individual Debtor's name will not fit in line 2b, leave all of item 2 blank, check here ☐ and provide the Individual Debtor information in item 10 of the Financing Statement Addendum (Form UCC1Ad)

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S SURNAME FIRST PERSONAL NAME ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

3. **SECURED PARTY'S NAME (or NAME of ASSIGNEE of ASSIGNOR SECURED PARTY):** Provide only aaa Secured Party name (3a or 3b)

3a. ORGANIZATION'S NAME

OR

3b. INDIVIDUAL'S SURNAME FIRST PERSONAL NAME ADDITIONAL NAME(S)/INITIAL(S) SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

4. **COLLATERAL:** This financing statement covers the following collateral:

The UCC filing should include a description of the collateral

5. Check aaa if applicable and check aaa one box: Collateral is ☐ held in a Trust (see UCC1Ad, item 17 and instructions); ☐ being administered by a Decedent's Personal Representative

6a. Check aaa if applicable and check aaa one box: ☐ Public-Finance Transaction ☐ Manufactured-House Transaction ☐ A Debtor is a Transmitting Utility

6b. Check aaa if applicable and check aaa one box: ☐ Agricultural Lien ☐ Non-UCC Filing

7. ALTERNATIVE DESIGNATION (if applicable): ☐ Lessee/Lessor ☐ Consignee/Consignor ☐ Seller/Buyer ☐ Bailee/Bailor ☐ Licensee/Licensee

8. OPTIONAL FILER REFERENCE DATA:

FILING OFFICE COPY — UCC FINANCING STATEMENT (Form UCC1) (Rev. 04/20/11) International Association of Commercial Administrators (IACA)

What are UCC-1 Filings?

To be recorded in the land records, a legal description of the property is required on the UCC-1 financing statement

This information may be on an addendum to the UCC-1 financing statement

If you are ever uncertain about how to interpret a UCC-1 filing, it's best to contact the provider of your title search/commitment or your legal department

12. ADDITIONAL SPACE FOR ITEM 4 (Collateral): TOGETHER WITH ALL PRESENT AND FUTURE ATTACHMENTS, ACCESSORIES, REPLACEMENT PARTS, ADDITIONS AND ALL CASH AND NON-CASH PROCEEDS THEREOF.	
13. <input checked="" type="checkbox"/> This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS (if applicable)	14. This FINANCING STATEMENT: <input type="checkbox"/> covers timber to be cut <input type="checkbox"/> covers as-extracted collateral <input checked="" type="checkbox"/> is filed as a fixture filing.
15. Name and address of a RECORD OWNER of real estate described in item 16 (If Debtor does not have a record interest):	16. Description of real estate:

UCC Financing Statements may vary by State, this is for illustration purposes only.

Solar Leases and Power Purchase Agreements

Solar Panel Leases

Some homeowners opt to rent solar equipment

- Obtain a copy of the lease/review the lease
- Monthly lease payments must be included in the DTI calculation **unless the lease:**
 - Provides the delivery of a specific amount of energy at a fixed payment during a given period, **and**
 - Has a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required in the lease for that period
- **The value of the solar panels should not be considered in the appraised value of the property**



Power Purchase Agreements (PPAs)

Some homeowners may have a PPA

A third-party installs, owns and operates an energy system on the borrower's property. The owner purchases power for a pre-determined period.

- Obtain and review the PPA
- If the payment is based solely on the energy produced it may be excluded from the DTI ratio
- **The value of the solar panels should not be considered in the appraised value of the property**



Reviewing Leases and PPAs

Leases and/or PPAs should indicate the following:

- Any damage from installation, removal, malfunction, or manufacturing defects is the responsibility of the equipment owner
- The equipment owner must repair any damage and return the home to its original or prior condition



Reviewing Leases and PPAs (continued)

The owner of the panels should not be named as a loss payee on the borrower's homeowners insurance policy

- If this is not stated in the lease or PPA, the borrower's insurance policy may serve as evidence.

In the event of foreclosure, the lender or assignee must have the right to:

- Terminate the lease/PPA, and have the equipment removed
- Become the beneficiary of the borrower's lease/PPA without paying any transfer fee or similar costs
- Be able to establish a new lease/PPA under terms that are no less favorable than the previous agreement



Other Important Reminders

In all instances, properties with solar panels must have an alternative energy/electric supply that is consistent with community standards

The appraiser should supply comments about the existence of an alternative source and whether it's the norm for the surrounding market



MPF Contacts and Resources

MPF® Service Center

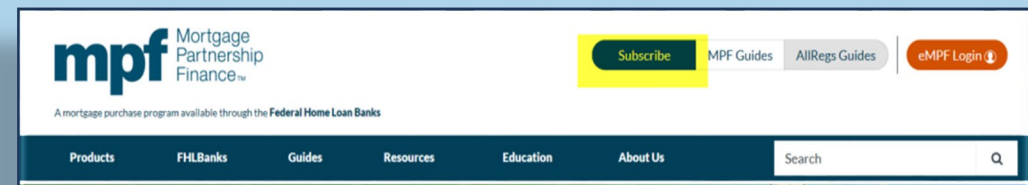
Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 pm CST

Phone: (877) 345-2673

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