MGB ACADEMY
C-PACE for Architects & Engineers

# Capital Stack Position & Lender Consent

*Where the assessment sits, and why the mortgage holder has to agree*

| Program metadata | Detail |
|---|---|
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**HOW TO USE THIS DOCUMENT**

Orientation for design professionals, not a financing manual. The purpose is to let you recognize the two questions that most often stall a project — lien position and lender consent — early enough to be useful.

This is not legal or financial advice. Lien priority, consent terms, and intercreditor treatment are counsel questions for the owner and the capital provider.

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## The stack, from the bottom up

| Layer | Typical position | What it cares about |
|---|---|---|
| **Property tax and special assessments** | Senior | Statutory collection mechanism |
| **C-PACE assessment** | Senior special assessment, non-accelerating | Eligible cost basis, documented owner benefit, useful life |
| **Senior mortgage** | First lien on the fee | Debt service coverage, net operating income, consent terms |
| **Mezzanine debt** | Subordinate | Total leverage, cash flow after senior debt |
| **Preferred equity** | Subordinate | Return hurdle, control rights |
| **Common equity** | Residual | Cash required at closing, total return |

**TWO FEATURES THAT MAKE THE ASSESSMENT UNUSUAL**

Position: the assessment sits with property taxes and special assessments, which is senior to the mortgage.

Behavior on default: the assessment does not accelerate. Only the delinquent installments are pursued, not the full remaining balance. This is the feature that makes senior lenders willing to consent — their exposure is one or two annual installments, not the whole assessment.

## Why this matters at the drawing board

Because it changes the size of the project the capital can carry. Conventional debt sizes to loan-to-value and debt service coverage, and by the time the equity has been raised there is often no room left for the deep scope. The assessment sizes to eligible project cost and documented benefit, and it does not consume mortgage capacity in the same way. That is why the specification you would have written can survive the budget — and why the quality of your benefit documentation, not the owner's balance sheet, is frequently the binding constraint on project size.

> *Practical sequence: eligible scope defined → benefit documented → capital sized → lender consent obtained. When the sequence runs backwards, the scope has already been cut before anyone asks what could have been financed.*

## Senior lender consent — what actually happens

The existing mortgage holder must consent in writing before the assessment is recorded. This is not a formality and it is not fast. Typical review runs several weeks and involves asset management or a credit committee rather than the relationship officer.

| What the lender asks | What resolves it | Whose document |
|---|---|---|
| **What exactly is being financed?** | Measure schedule with scope narrative | A/E — MGBA-AE-JA-03 |
| **Does the owner actually benefit?** | Benefit projection with assumptions and sensitivity | A/E — MGBA-AE-JA-04 and JA-05 |
| **What is our exposure if the owner defaults?** | Assessment does not accelerate; installment schedule | Capital provider |
| **How does this affect coverage?** | Pro forma with the assessment installment in operating expense | Owner |
| **What are we signing?** | Consent instrument | MCED / capital provider counsel |
| **Does the loan document permit it?** | Loan document review | Owner's counsel |

**YOUR CONTRIBUTION TO THE CONSENT PACKAGE**

Two of the six rows above are yours, and they are the two the lender reads first. A measure schedule a credit analyst can follow without construction documents, and a benefit projection with its assumptions visible, move consent faster than any amount of follow-up. Write both for a reader who is not an engineer.

## Sequence and timing

| When | Action | Note |
|---|---|---|
| **Schematic design** | Owner raises C-PACE with the mortgage holder informally | A surprise at closing is the most common reason consent fails |
| **Design development** | Measure schedule and preliminary benefit projection issued | Enough to support a term sheet |
| **Construction documents** | Final benefit projection; consent request submitted | Allow several weeks, not several days |
| **Pre-closing** | Consent executed; assessment recorded | Confirm current requirements with MCED |
| **Completion** | Completion certification issued | See MGBA-AE-JA-08 |

*Lien priority, non-acceleration, consent form, and intercreditor treatment are governed by §67.2800 RSMo, MCED program documents, and the transaction documents. Confirm all of it with counsel; nothing in this document is legal advice.*