

HERO Funding Class A Notes, Series 2014-1

\$104,397,000 Property Assessed Clean Energy (PACE) Bond Backed Notes

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Executive Summary

This pre-sale report is based on information regarding the underlying Property Assessed Clean Energy ("PACE") assessments and the terms of the proposed securitization as of February 27, 2014. The rating shown below is preliminary and subsequent information may result in the assignment of a final rating that differs from the preliminary rating. This report does not constitute a recommendation to buy, hold, or sell securities. KBRA's preliminary rating represents timely payment of interest and full payment of principal by the transaction's legal final maturity date.

Rated Notes							
Class	Amount	Interest Rate	Payment Frequency	Scheduled Maturity Date	Legal Final Maturity Date	Advance Rate	Preliminary Rating
Class A Notes	\$104,397,000	[_._%] Fixed	Semi-Annual	September 2034	September 2038	97.00%	AA(sf)

KBRA has analyzed this transaction using the [General Rating Methodology for Asset-Backed Securities](#) published on July 30, 2012. PACE assessments fall within Category 1: Financial Assets. The key determinants considered in the rating outcome are: a structural and legal analysis of the transaction; the treatment of PACE assessments as senior tax liens; and the creditworthiness of the County of Riverside, California. As part of the rating process, KBRA completed an operational review of: Western Riverside Council of Governments; County of Riverside, California; and Renovate America, Inc. with satisfactory results.

Transaction Overview

The notes are secured by 90 limited obligation improvement bonds (each, a "PACE Bond", and collectively the "PACE Bond Portfolio") issued by WRCOG. The PACE Bond Portfolio is secured by 5,890 PACE assessments levied against 5,627 residential properties ("PACE Assessments"). The average PACE Assessment is \$18,273 with an average annual payment of \$2,175. The transaction benefits from credit enhancement in the form of excess spread, overcollateralization, and a liquidity reserve.

Transaction Parties: Class A Notes	
Issuer	HERO Funding Trust 2014-1 ("HERO 2014-1")
Transferor	400 PACE Phase One LLC
Trust Administrator / Portfolio Administrator	400 Capital Administrator LLC
Depositor	400 PACE Depositor LLC
ABS Note Trustee	Deutsche Bank Trust Company Americas
Structuring Agent / Book Runner	Deutsche Bank Securities Inc.

Transaction Parties: PACE Bond Portfolio	
PACE Bond Issuer	Western Riverside Council of Governments ("WRCOG")
Assessment Administrator	David Taussig & Associates, Inc. ("DTA")
Program Administrator	Renovate America, Inc.
County	County of Riverside, California ("County")
PACE Bond Trustee	Deutsche Bank National Trust Company

Key Credit Considerations

Characteristics of PACE Assessments

PACE assessments are payable in equal semi-annual installments together with the property owner's *ad valorem* real estate taxes. Under California law, PACE assessments have equal lien priority with real estate taxes and other special assessments and are senior to all non-tax liens, including mortgages.

Generally, the amount of a PACE assessment is small compared to the value of the related property. The maximum lien-to-value ("LTV") for PACE assessments included in HERO 2014-1 is initially 15%. PACE assessments constitute liens against the entire property, not just the specific improvement installed and funded under the PACE program. The assessment remains with the property, irrespective of any intervening sales, until it is fully paid.

There is no acceleration of the assessment in case of foreclosure. Unlike in the case of residential mortgages where the entire loan balance would be due at foreclosure, only the amounts in arrears on a PACE assessment, including fees and penalties, are due. The purchaser of the property out of foreclosure will continue making the payments on the assessment once the property is taken over. As a result, the amount at risk is not the full amount of the assessment but only the debt service amount that is in arrears.

Transaction Structure

KBRA believes the transaction benefits from sufficient credit enhancement and a structure that accelerates principal payments to the rated notes upon weakening asset performance.

HERO 2014-1 utilizes an amortization schedule which sets a minimum threshold for the amount of amortization required on the notes on each payment date. In addition to requiring a payment of principal equal to 97% of all principal, prepayments and recoveries received on the PACE Assessments for such payment date, the waterfall provides that if the current note balance exceeds a targeted note balance for such payment date, remaining available funds will be used to pay down principal until such excess is eliminated.

Credit enhancement consists of excess spread, overcollateralization and a liquidity reserve account.

- **Excess spread:** HERO 2014-1 contains significant excess spread, which results from the difference between the weighted average interest rate of the PACE Bond Portfolio and the interest rate on the notes. In KBRA's analysis, the PACE Bond Portfolio's weighted average coupon of 7.96% compared to the expected fixed note rate of approximately 5.00% resulted in approximately 2.96% of initial excess spread available to cover losses. Any excess interest cash flows from the PACE Bond Portfolio will be available to pay principal should PACE Assessment defaults rise and the current note balance exceeds the targeted note balance.
- **Overcollateralization:** Overcollateralization will be 3.00% of the initial

aggregate PACE Bond principal amount.

- **Liquidity reserve:** The liquidity reserve amount will initially be 3.00% of the aggregate PACE Bond principal amount, which equals approximately seven months of interest. The liquidity reserve will gradually build up to 7.00% of the outstanding collateral principal amount, which equals approximately 17 months of interest.

FHFA Objections to Residential PACE Programs

The Federal Housing Finance Agency ("FHFA"), the conservator of Fannie Mae and Freddie Mac, believes that PACE liens with priority over existing mortgages are unlike routine tax assessments and contravene the terms of the Fannie and Freddie mortgages prohibiting such senior liens. Although WRCOG obtained a final, non-appealable judicial order from the Riverside County Superior Court affirming the validity, enforceability and seniority of the PACE liens, FHFA's public opposition indicates there is a risk the FHFA may challenge the validity of a PACE lien against a mortgagee's security interest in federal court. A successful challenge may result in impairment of the PACE Assessments.

While KBRA views this risk as remote, KBRA applied a stress scenario that assumed that all of the PACE Assessments that defaulted in the pool over the life of the notes related to properties having a Fannie or Freddie mortgage (which KBRA estimates to be nearly 40% of the pool) and that there were zero recoveries from these defaults. This stress showed that the transaction could withstand a default rate (with an assumption that all defaulted PACE Assessments are on properties with a Fannie or Freddie mortgage) of up to approximately 14%, a rate in excess of the 11.53% default rate recorded in the 2007-2008 recession. The results of such stress are shown in "Cash Flow Stress Scenarios & Results", Scenario 3.

Underwriting Guidelines

At the time of origination, the WRCOG program includes eligibility requirements covering the property owner and property, including:

- The property owner(s) must be current on their property taxes;
- The property cannot have had more than one 30-day mortgage late payment over the previous twelve months;
- Mortgage-related debt on the property must not exceed 90% of the market value of the property;
- Proposed improvements must not exceed 15% of the market value of the property and the combined mortgage related debt and amount of the PACE assessment must not exceed 100% of the market value of the property;
- The total annual property tax and assessments, including the contractual assessment, on the property must not exceed 5% of the property's market value.

KBRA views the eligibility requirements, especially the low maximum LTV of the PACE assessment, as a positive credit consideration for this transaction.

Creditworthiness of Riverside County

PACE Assessment collections may be commingled with other tax revenues of the County for several months before being remitted to the PACE Bond Trustee. As such, there is a risk that a portion of collections may be subject to an automatic stay in the event of a bankruptcy of the County. KBRA has assessed the County’s creditworthiness and has concluded that the County’s current financial standing does not act as a constraint on the rating of the notes. Other transaction components that mitigate the County’s bankruptcy risk include the divergence of excess cash into a reserve account in case the County is rated below investment grade and the requirement that WRCOG seek a court order directing that future PACE Assessment payments be separately collected and paid to the PACE Bond Trustee if the County is bankrupt.

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Lack of Historical Loss Data

As a new asset class, there is minimal PACE assessment default or foreclosure experience available. In its analysis, KBRA used historical residential real estate tax default data for the County and surrounding counties as a proxy for PACE Assessment defaults. KBRA views this as an acceptable proxy, since PACE assessments are equal in priority to other real estate taxes. When PACE assessments are entered on the tax roll, the County bills them along with other real estate taxes. Partial payments are returned to the taxpayer with the entire tax payment and the PACE assessment is considered delinquent. The County does not accept partial payments from the taxpayer, mitigating the risk of selective defaults of the PACE assessments.

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Geographical Concentration

All PACE Assessments are levied on properties located in the County. Adverse economic circumstances in the County or catastrophic weather events, such as earthquakes and floods, may increase delinquencies and defaults in the collection of the PACE Assessments.

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Collateral Overview

PACE Legislation

Thirty one states in the U.S. have passed legislation allowing municipalities to create PACE programs. PACE programs enable local governments to finance renewable energy and energy efficiency projects on privately owned residential, commercial, agricultural, and industrial properties. The purpose of PACE programs is to promote energy efficiency, water conservation and renewable energy improvements, support green job creation, and stimulate economic activity. The programs also eliminate the barriers of high upfront costs and lack of available funding for eligible improvements.

PACE Assessments

Under California law, property owners may enter into voluntary contractual assessments levied on residential properties in order to finance the acquisition and installation of eligible energy efficiency, water conservation and renewable energy improvements, which are known as PACE assessments. WRCOG has

established such a program in the County and currently provides PACE financing to property owners wishing to install eligible improvements. The lien of each PACE assessment is equal to liens for state and municipal taxes, is generally not subject to extinguishment upon sale of the property, and is considered senior to all non-tax liens.

A PACE assessment constitutes a lien against the entire property, not just the specific improvement installed and funded by the PACE assessment. The assessment remains with the property, irrespective of any intervening sales, until it is fully paid.

PACE Bonds

PACE Bonds are limited obligation improvement bonds issued by WRCOG. Each PACE Bond is secured by certain PACE Assessments levied on residential properties in the County. Payments are made on the PACE Bond on March 2 and September 2 of each year using payments received from the PACE Assessments. The PACE Bond payments made on March 2 are comprised of interest, prepayments of principal and recoveries, and payments made on September 2 are comprised of interest, principal, prepayments and recoveries.

HERO 2014-1 Collateral Overview

The notes are secured by 90 PACE Bonds issued by WRCOG. The PACE Bonds are secured by 5,890 assessments levied against 5,627 residential properties. The average PACE Assessment is \$18,273 with an average annual payment of \$2,175. A summary of both the PACE Assessments and the PACE Bond Portfolio are shown in the table below.

Summary of Assessments		Summary of PACE Bonds	
Number of Assessments	5,890	Number of Bonds	90
Avg Assessment Value	\$18,273	Total Principal Amount	\$107,626,413
Range	\$641.47 - \$112,010.65	WA Coupon	7.96%
Avg Annual Payment	\$2,175	Range	5.95% - 8.95%
Range	\$81.56 - \$17,204.38	WA Original Term	16.71 years
WA Assessment LTV	7.60%	Range	5 - 20 years
Range	0.25% - 14.90%		
WA Mortgage LTV	66.54%		
Range	0.00% - 90.03%		
WA Combined LTV	74.14%		
Range	0.47% - 100.22%		

Process Overview

Key Parties

Renovate America

Renovate America was founded in 2008 exclusively to work with local governments to enact the HERO financing program. Renovate America has developed a front end residential related PACE program that can be tailored to individual local jurisdictions. Once a program is created and implemented, Renovate America is contracted to market and originate new assessments on an ongoing basis.

Renovate America is headquartered in San Diego, CA and currently employs 107 full time employees. With a focus on technology and automation, Renovate America's program is scalable and designed for growth.

Currently all clients are focused in California, although the company expects to grow via new jurisdictions throughout California and Florida. Management is experienced in technology, governmental programs and energy related businesses.

In 2011, WRCOG contracted with Renovate America to help create its PACE program. Renovate America is directly responsible for developing and marketing the program and originating each assessment. Renovate America is also involved in funding and transferring data to the County.

David Taussig & Associates, Inc.

David Taussig & Associates, Inc. ("DTA") is a national public finance consulting firm founded in 1985 and headquartered in Newport Beach, CA. The company provides oversight to governmental agencies in managing their funding programs. Specific functions include calculation of monthly charges, preparation of delinquency reports and responding to property owner inquiries. DTA currently administers over 300 regional and benefit-area-based fee programs, including PACE programs.

WRCOG has contracted with DTA to perform a number of administrative activities related to the ongoing maintenance of its PACE program. DTA initially provided consulting services in developing the PACE program and the company works closely with Renovate America to originate each PACE assessment. As part of its ongoing obligation, DTA maintains a database with all PACE assessment documentation and information. The company provides the County with billing information, delinquency data and parcel details.

Assessment Origination

Renovate America originates 95% of all PACE assessments through contractor referrals. Each contractor must be licensed and bonded by the California Contractors State License Board and must be registered with Renovate America to participate in the HERO program. Renovate America provides contractors with training on the HERO program, acceptable marketing practices and eligible equipment criteria. Contractors are also given access to a proprietary 'contractor only' website that provides financing data, tracking capabilities and marketing information. According to Renovate America, there are currently 2,100 contractors in the network. A fifteen person team manages the contractor oversight process, including compliance and training.

Underwriting is done through a proprietary Automated Underwriting System ("AUS"). Approximately 62% of applications are automatically approved or declined. The remaining 38% are reviewed by underwriters for missing data and compliance with underwriting guidelines. Although a credit score is not used to underwrite, credit reports are pulled and reviewed on all applicants to determine potentially fraudulent activity associated with the property owner and to verify mortgage-related payment history. Renovate America uses a proprietary Automated Valuation Model ("AVM") that utilizes data pulled from various real estate data providers to determine property value. Declines are typically due to high real estate mortgage lien-to-value. All PACE Assessments included in this transaction conform to the underwriting criteria.

Property owners and properties must meet the following criteria to be eligible:

- Property owners must be the property owners of record;
- Property owners must be current on their property taxes;
- Property owners must be current on all property debt at the time of funding, and cannot have had more than one 30-day mortgage late payment over the previous 12 months;

- Property must not have any liens other than lender debt or liens recorded by other property tax financing districts;
- Property owners have not declared bankruptcy in the past seven years and the property is not currently an asset in a bankruptcy proceeding; provided, however, that if the bankruptcy is more than two years old, and if property owner has no additional derogatory credit, the property owner may be approved;
- Mortgage-related debt on the property must not exceed 90% of the market value of the property;
- Proposed improvements must not exceed 15% of the market value of the property;
- The combined mortgage related debt and amount of PACE assessment must not exceed 100% of the market value of the property;
- The total annual property tax and assessments, including the contractual assessment, on the property will not exceed 5% of the property's market value, as determined at the time of approval of the contractual assessment.

Although WRCOG has established the foregoing eligibility criteria, neither WRCOG nor any other transaction party is required to repurchase a PACE Bond for which there was a breach of representations or warranties relating to the underlying properties or property owners. Instead, investors would be left to pursue a breach of contract action against WRCOG for failure to fulfill its responsibilities under the PACE Bond indenture.

Once an assessment contract is approved, interest rate and term options are provided to the applicant. The term of the PACE assessment cannot exceed the useful life of the asset. Since the assessment is not a loan, there are no specific disclosures required or consumer protection laws applicable, although the application for the HERO program contains several disclosures regarding fees, foreclosure and prepayment premiums.

Prior to funding, all related parties (including Renovate America, DTA and WRCOG) must review closing documentation and approve the financing. The lien is then recorded by the County Recorder. Funds are wired directly to the contractor (or directly to the homeowner if there is no contractor involved) only after installation is complete and certified by the homeowner.

Servicing

The County is responsible for billing and collecting the PACE Assessments. An estimated 20% of the County's \$3 billion annual tax collections are defined as incremental taxes or assessments. Each assessment is included on a property owner's tax bill as a separate line item. As discussed, DTA prepares and submits the annual assessment roll to the County Auditor's office.

The County mails annual property tax bills to property owners each October. The property tax bills identify the amounts to be paid for the year as two equal installments: payments are due by November 1 and February 1 of each year. The County accepts property tax bill payments via mail, over the phone with a credit card, online with a credit card or e-check, electronic funds transfer, Western Union, or in person. Most payments are received from mortgage servicers as part of a borrower's escrowed tax payment.

The county does not allow for partial payments or directed payments. All tax and assessment payments are pari passu and must be paid in full or the payment will not be accepted and will be returned to the taxpayer. Additionally, first installment taxes must be paid before the County will accept funds for the second installment. Prepayments of PACE assessments are permitted, although there is a prepayment

penalty of 5% of the prepayment amount in Year 1, 4% in Year 2, 3% in Years 3-5, and no penalty thereafter. Once received, the County sends the assessment funds to the PACE Bond Trustee each January (for payments received through early January), May (for payments received through early May), and August (for payments received through late July).

If the property tax is not paid by 5:00 pm on December 10 and April 10 of each year, a 10% penalty is applied by the County. In addition, on July 1 of each year, the County will apply an interest charge of 1.5% per month until the property tax is paid. Late penalties received on defaulted PACE Assessments will be available to pay principal and interest on the notes.

DTA reviews payment information provided by the County and confirms delinquent payments. DTA will send delinquency reminder letters to property owners within 10 days of receiving the County's delinquency report for the first and second installments, and at fiscal year-end, June 30. DTA provides WRCOG with a list of the parcels that are still delinquent as of the October 1 foreclosure deadline. WRCOG will in turn notify its counsel of delinquent parcels and require foreclosure proceedings to commence.

Legal Considerations

FHFA Objections to Residential PACE Programs

The FHFA, the conservator of Fannie Mae and Freddie Mac, has declared that PACE programs which permit municipalities to impose tax liens that prime existing mortgages present "significant safety and soundness concerns" and represent a "key alteration of traditional mortgage lending practice". The FHFA has stated that Fannie's and Freddie's uniform mortgage documents prohibit PACE financing with lien priority over the mortgage.

In order to counter these concerns, WRCOG received a default judgment from the Riverside County Superior Court in July 2011 decreeing that the assessment agreements and the PACE Bonds were binding obligations and that the senior priority of PACE assessments was enforceable under federal and state law. This order is final and the appeals period has passed. KBRA has been advised that the FHFA, Fannie and Freddie received notice of the judicial validation proceedings and did not appear or provide any notice of objection. Furthermore, WRCOG obtained a legal opinion stating that the PACE assessments do not violate the U.S. or California Constitutions' prohibitions against impairing contracts or taking a pre-existing lender's property, the assessments have been validly authorized under California law, that liens to secure payment of such assessments have been imposed on the related properties, and that these liens are equal to and independent of liens for general municipal taxes, ad valorem assessments and other special assessments. Furthermore, in a process under California law known as judicial validation,

Although WRCOG has taken many steps to protect PACE assessments from federal challenge, KBRA believes there remains a small but material risk that the FHFA may successfully challenge California's PACE program under the U.S. Constitution's Supremacy Clause, which requires that states and municipalities recognize the supremacy of federal law whenever it conflicts with state or local law. If successfully challenged by the FHFA, the PACE Assessments may be impaired. As a result, KBRA tested the transaction structure by assuming (i) the PACE program is successfully challenged and (ii) all the PACE Assessments that defaulted in the pool over the life of the notes related to properties with a Fannie or Freddie mortgage (which KBRA estimates to be nearly 40% of the pool) realize zero recoveries. This stress showed that the transaction could withstand a default rate (with an assumption that all defaulted PACE Assessments are on properties with a Fannie or Freddie mortgage) of up to approximately 14%, a rate in excess of the 11.53% default rate recorded in the 2007-2008 recession. The results of such stress are shown in "*Cash Flow Stress Scenarios & Results*", Scenario 3.

Risk of Riverside County Bankruptcy

Under the PACE program, property owners subject to a PACE assessment make property tax payments to the County, which then remits all collections associated with the PACE assessments to the PACE Bond Trustee every January, May and August. Collections on PACE assessments are not separated from general tax collections until the delivery dates in January, May and August occur, with the effect that until the funds are remitted to the PACE Bond Trustee, PACE assessment collections are commingled with other revenues of the County and may be subject to an automatic stay in the event of a municipal bankruptcy of the County. KBRA considered the following mitigating factors in the analysis:

- The transaction features a liquidity reserve that can cover interest payments in case of a disruption in cash flows.
- When the County is rated below investment grade, funds available after payment of principal are deposited into a County Reserve Account.
- In the event of a County bankruptcy, WRCOG is obligated to seek a court order directing that such future payments be separately collected and paid over to the PACE Bond Trustee.

KBRA has analyzed the creditworthiness of the County and has concluded that the County's current financial standing would not act as a constraint on the rating of the notes. Furthermore, in the event of a WRCOG bankruptcy, collections on PACE assessments would likely constitute "special revenues" under Chapter 9 of the U.S. Bankruptcy Code that would not be subject to the automatic stay and could not be diverted to pay WRCOG debts unrelated to the PACE program.

Delinquency and Foreclosure

A PACE assessment is considered in default if it is in arrears by June 30 of any year. DTA will provide a list of parcels that are still delinquent as of October 1 of each year. By December 1 WRCOG must commence foreclosure proceedings against each delinquent participating parcel, with foreclosure costs to be borne by WRCOG. The property owner generally has 140 days after notice to redeem the property. If a property owner fails to redeem and the property is sold, the only remedy available is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, a foreclosure sale is set aside, the judgment is revived and WRCOG is entitled to interest on the revived judgment as if the sale had not been made. Amounts collected are held in trust for the benefit of the PACE Bond owner until all delinquent amounts have been deposited into a Redemption Fund.

KBRA views California's tax foreclosure laws, which grant WRCOG the flexibility to quickly foreclose on a delinquent obligor's property, as a credit positive. In most judicial foreclosure actions, there may be a lengthy interval between default and realization of proceeds from a foreclosure. California's tax foreclosure laws, in contrast, allow for much quicker recoveries.

Cash Flow Base Case Assumptions

KBRA performed a cash flow analysis to test the transaction structure. The analysis considers a number of key inputs:

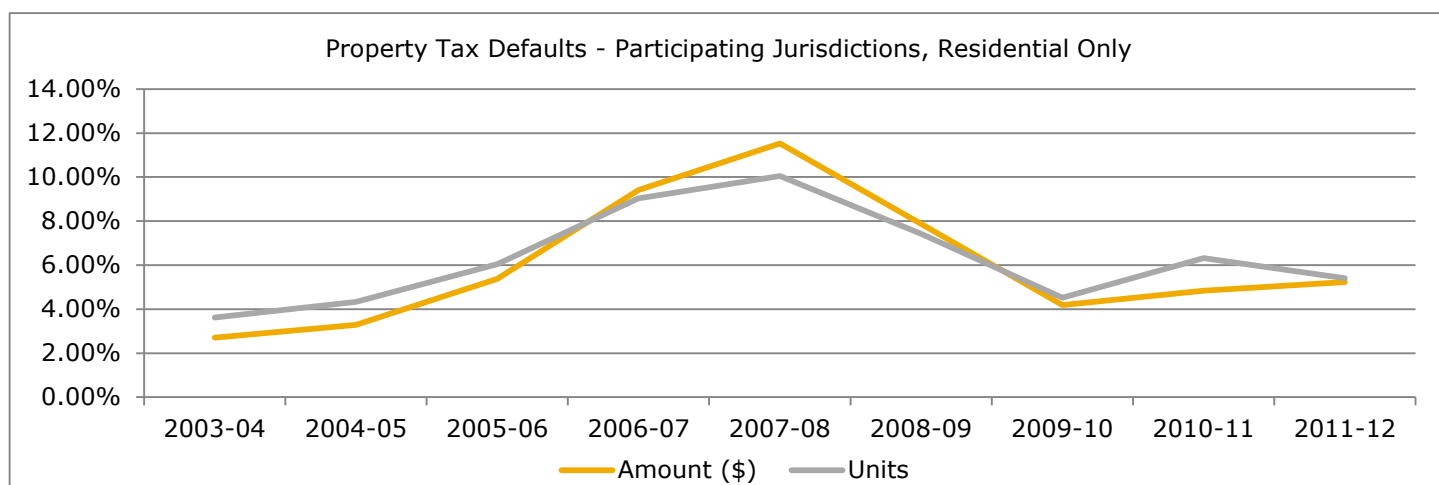
- Default rates
- Time to recovery
- Recovery rate

KBRA established a base case for each input and then applied stresses to test the transaction’s ability to pay timely interest and full principal by the legal final maturity date. KBRA’s analysis did not take into account cash flow received from the 10% penalty for payments made after the tax assessment due dates or the interest charge of 1.5% per month for property taxes in default. KBRA’s base case assumptions are summarized in the following table and the rationale for each input is summarized below.

Base Case Cash Flow Assumptions		
Default Rate	Time to Recovery	Recovery Rate
6.75%	24 months	100%

Default Rate

As a new asset class, there is no direct default or foreclosure experience to rely upon in developing an expected loss proxy for PACE assessments. As a result, KBRA used historical residential real estate tax default data in the participating jurisdictions of the County from fiscal year 2003-04 through 2011-12.



Over the previous nine years, the average dollar amount in default as a percentage of the total dollar amount on the County tax roll was 6.05% and the average number of units in default as a percentage of the total number of units was 6.31%. Default rates peaked in the 2007-2008 fiscal year at 11.53% by dollar amount and 10.05% by number of units. KBRA’s base case default rate is 6.75%, which is equal to the average percentage of residential real estate taxes in default, by dollar amount, over the last five years, which included the peak level experienced in 2007-2008.

The default percentages presented above do not represent new real estate tax defaults. Instead, each year’s default rate incorporates real estate tax defaults from previous years. Since property owners must be current on all property taxes at the time of origination and since new real estate tax defaults in any particular year must be equal to or below total real estate taxes in default in that same year, KBRA views this as a conservative approach for establishing the base case.

Time to Recovery

KBRA analyzed the number of years after a default for a residential property to become current on its property taxes. The data shows that on average over an eight year time period, 63% of residential tax defaults were cured by the following year and 84% within two years. In most cases these cures were not the result of foreclosure proceedings.

KBRA believes that the majority of properties that default on their real estate taxes would not result in a foreclosure. To be conservative, KBRA assumed all defaulted taxes go through the foreclosure process and are sold in a tax sale in the base case, meaning all defaulted PACE payments take 24 months to recover.

Recovery Rate

The PACE assessments are equal to liens for state and municipal taxes, and senior to all non-tax liens, including mortgages. The underwriting criteria limit the maximum assessment LTV to 15%. The entire PACE assessment does not accelerate due to a default, only the amounts in arrears, including fees and penalties, are due at foreclosure. Therefore, the effective LTV in a default is typically a minimal level compared considering the relatively small amount due. The underwriting criteria also prohibits total annual property taxes and assessments, including the PACE assessment, to exceed 5% of the property's market value at the time of approval.

The table below shows the amount of real estate taxes due as a percentage of the property value at the time of origination, absent late penalties and fees, and the property value decline required to experience a loss, given varying amounts of time from default to recovery.

Amount at Risk as % of Property Value		
Foreclosure Time	PACE & Other Real Estate Taxes Due	Property Value Decline Required for Loss
12 Months	5.00%	95.00%
24 Months	10.00%	90.00%
36 Months	15.00%	85.00%
48 Months	20.00%	80.00%
60 Months	25.00%	75.00%

Property values would have to decline significantly to experience any losses at the time of foreclosure. As such, KBRA assumes a 100% recovery of all defaulted PACE assessment payments at the time of foreclosure in the base case.

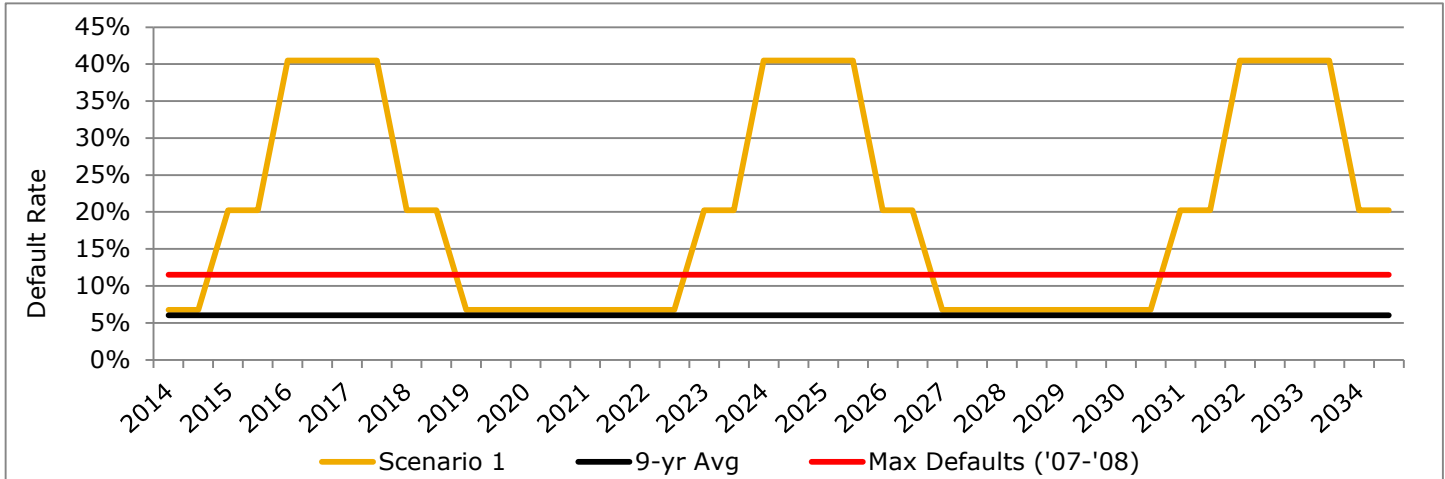
Cash Flow Stress Scenarios & Results

Stress Scenarios

KBRA ran multiple stress scenarios which varied default rates and timing, recovery rates, and time to recovery. The scenarios presented below represent the three most stressful scenarios.

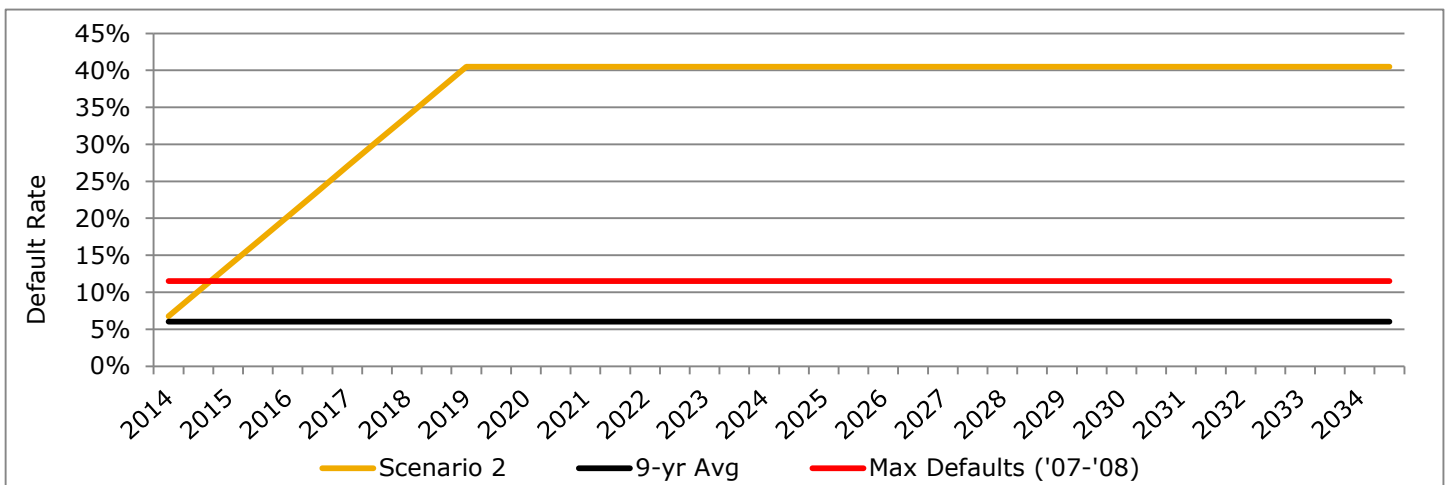
Scenario 1

Scenario 1 assumed three 4-year periods of high defaults. In each period, defaults peaked at 40.50%, which is a 6.00x multiple of base case defaults. The scenario also stressed the number of months it took from the time of default to the sale of the property from 24 months to 48 months. The recovery rate applied during this scenario was 80.00% compared to 100% in the base case. The default rate applied in this scenario is significantly above the default rates experienced in the Country during the 2007-2008 fiscal year, as shown in the chart below.



Scenario 2

Scenario 2 assumed default rates rapidly increased at a constant rate, peaking at 40.50% in year six, where it remained throughout the life of the transaction. Similar to Scenario 1, KBRA assumed a 48 month time to recovery and an 80% recovery rate.



Scenario 3

Scenario 3 assumed that the FHFA successfully challenges the seniority of the PACE liens, a court subordinates the PACE assessment to any Fannie and Freddie mortgages during any foreclosure, and there are zero recoveries and the extinguishment of the PACE assessments relating to defaulted properties. At the time of default, no cash flow is assumed from the defaulted contracts. Using the base case default rate of 6.75%, KBRA assumed that 100% of defaulted PACE assessments were related to properties with a Fannie or Freddie mortgage on them versus the 40% estimated to be in the pool.

Stress Scenario Results

The table below shows the results of KBRA’s stress scenarios and the breakeven analysis related to each scenario. In each scenario, timely interest and all principal was paid on the notes by the legal final maturity date.

Stress Scenario Results						
Scenario	Results	Peak Default Rate	Recovery Rate	Peak Severity	Total Severity	Breakeven Analysis
Scenario 1	PASS	40.50%	80.00%	8.10%	4.08%	Recovery Rate: 60.00%
Scenario 2	PASS	40.50%	80.00%	8.10%	7.45%	Recovery Rate: 67.00%
Scenario 3	PASS	6.75%	0.00%	6.75%	6.75%	Default Rate: 14.00%

Rating Sensitivity and Surveillance

Events that may result in a rating change to the HERO 2014-1 include but are not limited to the following:

- Deterioration in the transaction's asset performance that exceeds historical experience
- Significant regulatory or legislative changes relating to PACE assessments
- Modifications of the transaction's structure

After the initial rating is assigned, KBRA will continue to monitor the transaction until the notes are fully repaid. Ongoing surveillance of the notes is critical to maintaining the value of the rating. KBRA's surveillance process involves a periodic review of the following:

- Servicing reports to determine if all payment obligations are met and the transaction is in compliance with all triggers
- Trends in collateral performance relative to historical experience

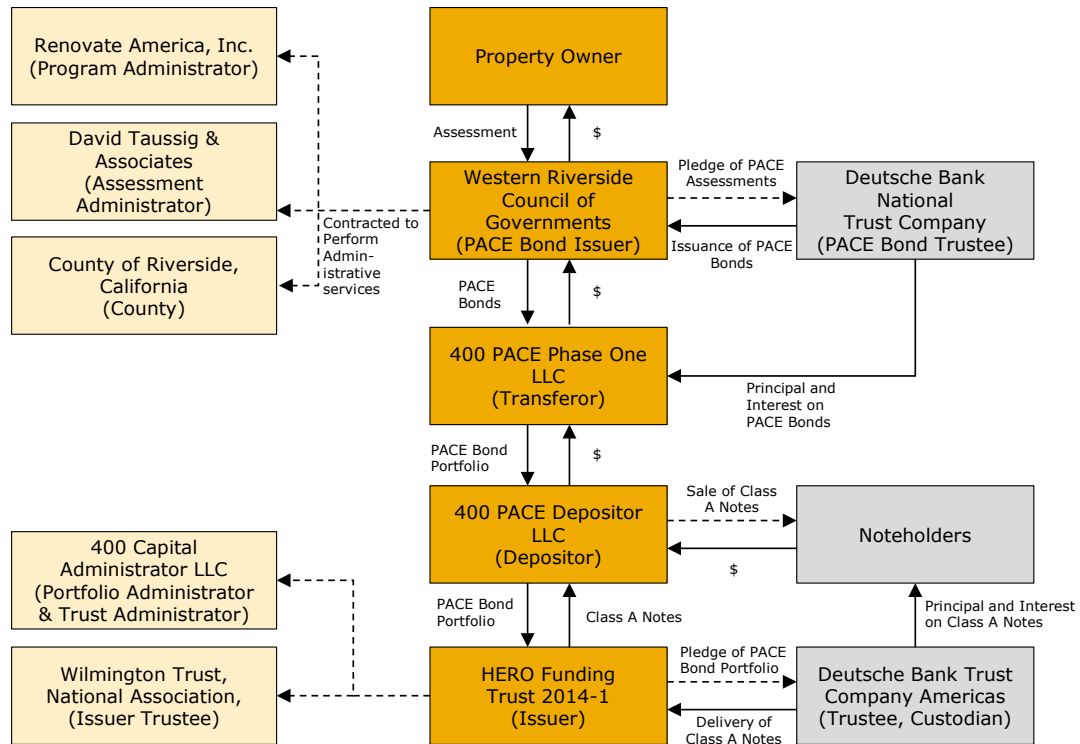
The information gathered during regular surveillance will indicate whether or not a more thorough review is warranted. Additional information may be requested if KBRA believes the credit quality of the transaction has changed from the time of the initial rating assignment or the most recent review. If warranted, KBRA will conduct an in-depth surveillance review that may result in a change to the transaction's rating and publish commentary explaining the analysis.

Transaction Structure

Legal Structure

Transaction Structure

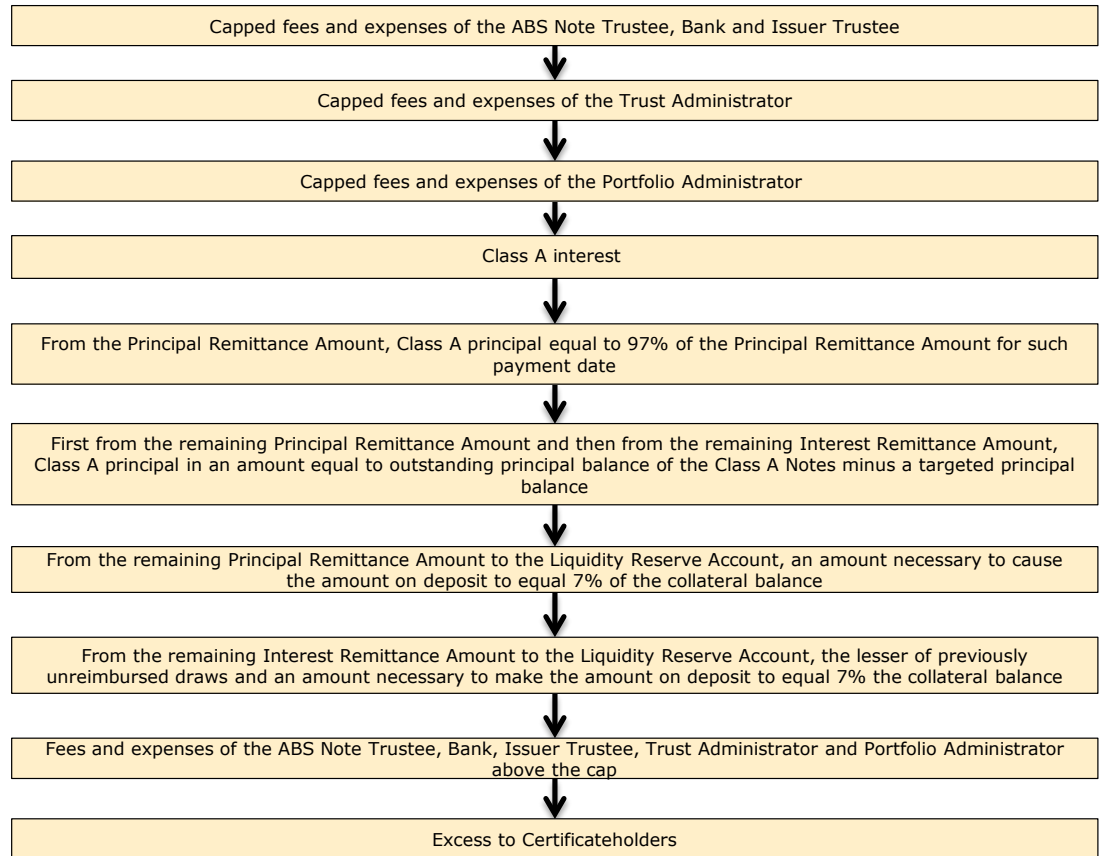
The HERO Funding Class A Notes Series 2014-1 are newly issued asset-backed notes collateralized by a pool of Property Assessed Clean Energy (PACE) bonds. The following diagram illustrates the basic securitization structure:



Certain PACE Assessments payable under assessment contracts entered into by certain property owners and the Western Riverside Council of Governments (WRCOG) have been pledged by WRCOG to a PACE Bond Trustee in consideration of WRCOG issuing PACE Bonds. Certain of these PACE Bonds have been purchased by an affiliate of the Transferor, and on the closing date this affiliate will sell all of its PACE Bonds to the Transferor, which will then sell them to the Depositor, which will then contribute them to the Issuer. The Issuer will then issue the notes backed by a pledge to the Trustee of the PACE Bond Portfolio.

Priority of Payments Prior to an Event of Default

On each Payment Date prior to an indenture event of default, an optional or mandatory redemption, or the scheduled maturity, and while no County Reserve Period is in effect, available collections will be applied on behalf of the Issuer as follows:



“Principal Remittance Amount” means all collections constituting payments of principal on the PACE Bonds (including prepayments and recoveries).

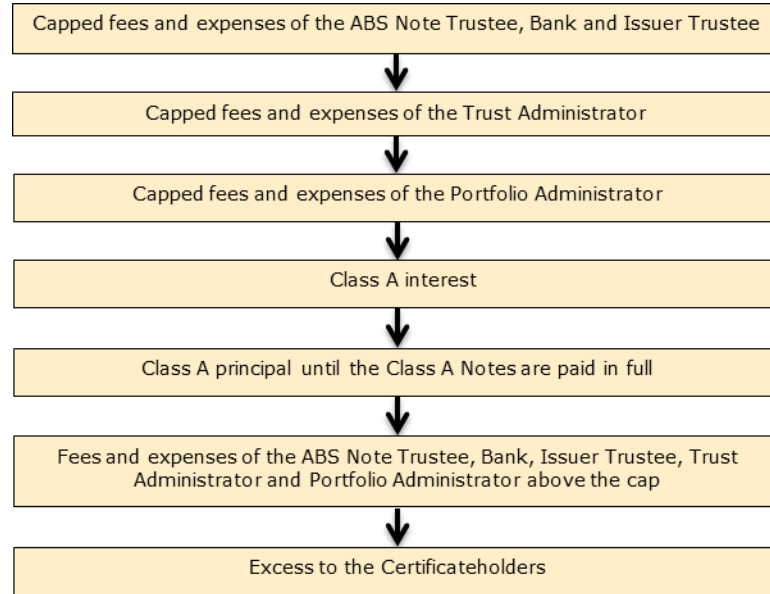
“Interest Remittance Amount” means all collections on the PACE Bonds not constituting Principal Remittance Amounts.

Amounts paid under steps 1, 2, 3 and 4 above will be paid from the following sources in the following order:

- first, from the Interest Remittance Amount
- second, from the Liquidity Account
- third, from the Principal Remittance Amount

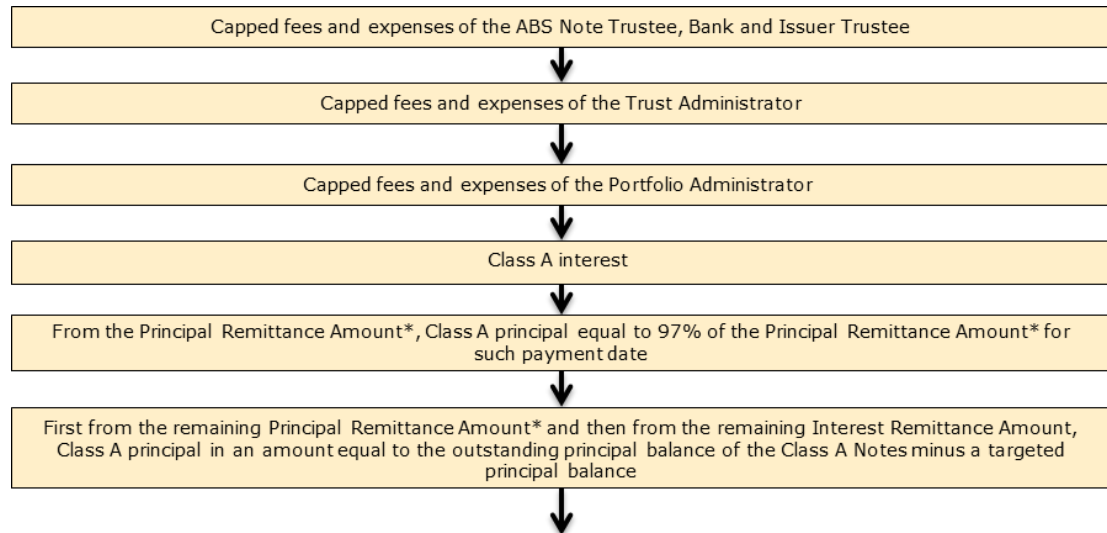
Priority of Payments following an Event of Default

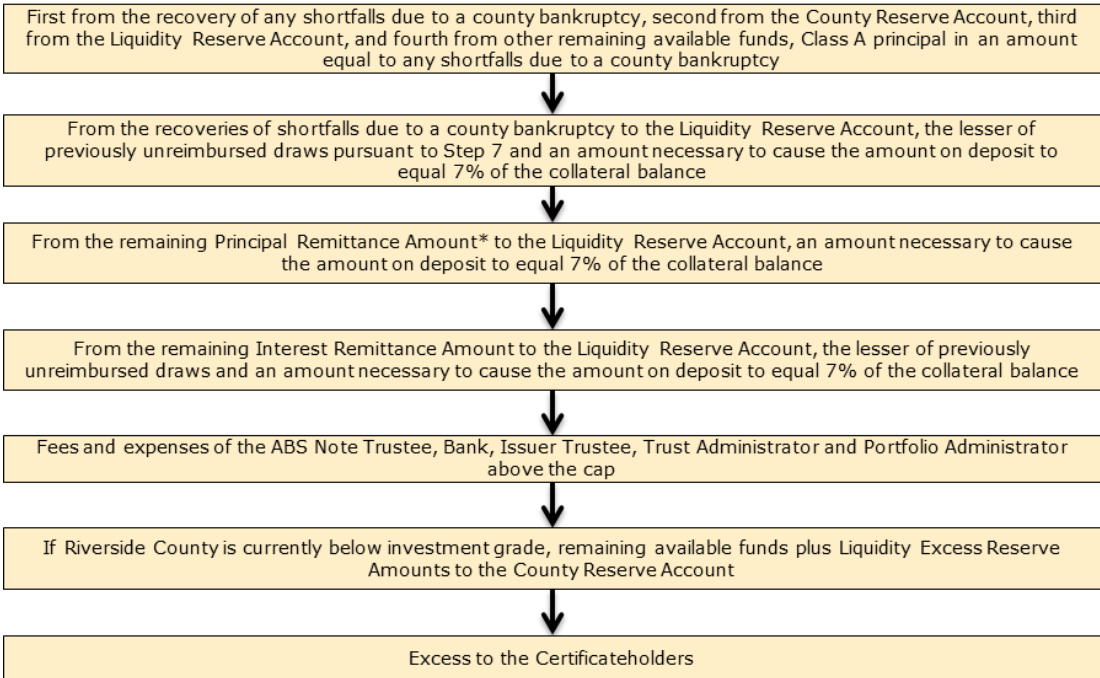
On each Payment Date following an indenture event of default, an optional or mandatory redemption, and on the maturity date, available funds and all amounts in the Liquidity Reserve Account and the County Reserve Account will be distributed as follows:



Priority of Payments During a County Event

During any period when County is either rated below investment grade or becomes a debtor in a proceeding under Chapter 9 of the U.S. Bankruptcy Code, the priority of payment changes. This following waterfall will remain in effect until shortfalls due to a bankruptcy of the County have been repaid in full and either the County is restored to investment grade or certain other events occur.





Amounts paid under steps 1, 2, 3 and 4 above will be paid from the following sources in the following order:

- first, from the Interest Remittance Amount
- second, from the Liquidity Account
- third, from the County Reserve Account
- fourth, from the Principal Remittance Amount

* In this waterfall, Principal Remittance Amount will exclude recoveries of shortfalls due to the bankruptcy of Riverside County

Events of Default

The occurrence of any of the following events will be an "event of default" under the indenture:

1. failure of pay timely interest;
2. failure to pay the principal balance of the notes at maturity;
3. a statute, rule or regulation becomes effective following the closing date, or there is a final, non-appealable judgment of a court of competent jurisdiction following the closing date, which has a material adverse effect on the validity or enforceability of the PACE Bonds, WRCOG's ability to perform its payment obligations under the PACE Bond Indenture, WRCOG's rights to receive payments in respect of the PACE Assessments or its liens on the participating parcels, and the Issuer's ability to make payments (excluding the effect of a bankruptcy of the County) on the notes;
4. certain defaults of covenants by the Issuer under the indenture continue

unremedied for 60 days after notice;

5. certain bankruptcy events occur with respect to the Issuer or Depositor;
6. failure of the transaction documents to create, attach and perfect a valid first-priority security interest in any material Collateral that, if curable, is not cured within 30 days after notice;
7. certain breaches of Issuer representations or warranties under the indenture;
8. the Issuer becomes taxable as an association or publicly traded partnership;
9. a final non-appealable, uninsured judgment of \$500,000 or more against the Issuer or Depositor that is not cured within 30 days;
10. failure to pay any shortfalls due to the County's bankruptcy on two consecutive payment dates;
11. certain breaches of Transferor, Depositor or Issuer representations, warranties or covenants under the transaction documents that have a material adverse effect on the Issuer's ability to make payments on the notes which continue unremedied for 60 days after notice;
12. an ERISA or tax lien securing the payment of money in excess of \$5,000,000 is rendered against the Issuer; or
13. the Portfolio Administrator or the Trustee is terminated or resigns, and a replacement is not appointed within 90 days.

Representations
& Warranties

For more detailed information regarding the representations, warranties and enforcement mechanisms available under the transaction documents, please see KBRA's HERO Funding Class A Notes, Series 2014-1 Rule 17g-7 Disclosure Report, which is being published contemporaneously with this report. The 17g-7 Disclosure Report is available at:

https://www.krollbondratings.com/show_report/1046

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