July 10, 2017

Via Electronic Filing

TO:
Federal Home Loan Mortgage Corporation (Freddie Mac)
8200 Jones Branch Drive
McLean, VA 22102-3110
(703) 903-2000

FROM:
Michael Mendelsohn
Senior Director of Project Finance and Capital Markets
Solar Energy Industries Association
600 14th St. NW, Suite 400
Washington, DC 20005
Ph: 303-218-0456
Email: mmendelsohn@seia.org

RE: Freddie Mac Duty to Serve Proposal

The Solar Energy Industries Association (SEIA) appreciates the opportunity to provide the following comments and recommendations regarding Freddie Mac's Duty to Serve (DTS) proposal.

Established in 1974, SEIA is the national trade association of the United States solar energy industry and is a broad-based voice of the solar industry. Through advocacy and education, SEIA and its 1,000 member companies are building a strong solar industry to power America. SEIA member companies work in all market segments – residential, commercial, and utility-scale. SEIA member companies install, finance, and provide other services to a large portion of residential solar projects throughout the United States.

Solar as an energy efficiency improvement for first-lien properties:

SEIA recommends that qualifying energy efficiency improvements explicitly include solar technologies, specifically photovoltaic (PV) and solar thermal technologies. PV produces electricity while solar thermal produces heat that can be used for water or space heating. As a result, including solar technology as a qualifying improvement is consistent with DTS's goal of financing improvements that reduce a homeowner's energy consumption and utility bill.

Energy Consumption and Utility Savings

SEIA recommends guidance be provided on the 15% energy reduction requirement as it relates to PV Systems, specifically, that the 15% should be calculated based on the utility usage offset. For example, if a PV System offsets more than 15% of the customer's historical electricity consumption, then that particular system should be deemed to have met the 15% offset requirement. We also ask that the historical electricity consumption be based on a reasonable time period (*e.g.*, 3 months), as it may be difficult for customers to find prior utility bills and usage data that cover long periods of time.

Our comments are motivated by the fact that a consumer can change their consumption habits (*e.g.*, installing an electric-vehicle charging station) which may offset energy savings from a system.

There should be greater clarification about how energy production estimates may be calculated and mandatory inputs for production estimates. SEIA cautions against a standard savings calculator because some states have considered such a proposal but backed away due to the need for substantial qualifiers associated with any output.

Lastly, SEIA requests that further clarification be provided in the commentary to the final rule that savings from local, state or federal rebates can and should be included in the savings calculations.

Pilot Programs

SEIA would welcome the opportunity to work with all parties to establish a pilot program so that we can show the benefits of incorporating a more robust program that enables greater deployment of PV Systems and the positive net impact that will on furthering the goals of the DTS requirements.

Qualifying "improvements"

Homeowners can go solar in the following ways:

- Purchase a system with cash
- Purchase a system with either a secured or unsecured loan
- Purchase a system using Property Assessed Clean Energy (PACE) financing
- Lease a system
- Enter into a Power Purchase Agreement (PPA) where the homeowner buys electricity generated by the system, but does not own the system

Currently, the majority residential systems are either leased or PPAs where the system is owned by a third-party. Lease agreements and PPAs treat systems as personal property which may affect their ability to be treated as "improvements." Thus, SEIA requests clarification on whether leases or PPAs qualify as "improvements."

Debt to Income

Many consumers have turned to third-party ownership (TPO) products (*e.g.*, leases and PPAs) to access solar electricity and lower their energy bills. Freddie Mac has asserted that monthly payments for TPO products containing a performance guarantee (which assures the customer of a certain amount of production by the PV System) shall be treated the same as utility payments and excluded from any debt-to-income (DTI) valuation. Today, an increasing number of consumers use solar loan products to acquire solar systems. Thus, SEIA asks that Freddie Mac consider treating any loan product with a performance guarantee the same as utility payments, similar to TPO systems.

This is even more important in the context of DTS, as any monthly loan payment included in a customer's debt to income ratio will significantly impact their ability purchase or refinance a home with a PV System.

Cash-Out Refinancing

Freddie Mac currently proposes to allow borrowers to use its cash-out refinance features to "pay off existing *unsecured debt obligations* related to energy efficiency improvements or pay off property assessed clean energy (PACE) loans."[1] Many solar financiers only offer loans secured by the solar system which do not appear to be covered by Freddie Mac's cash-out refinance feature. In contrast, PACE financing, which is secured by a tax lien on the home, is covered by the cash-out feature. As a result, an inconsistency appears to exist where homeowners can use cash-out refinancing to pay off some secured debt obligations but not others. Because of the prevalence of secured non-PACE solar loans, SEIA recommends that homeowners be able to use cash-out refinancing to pay off secured non-PACE solar loans.

Product and Underwriting Flexibility

SEIA supports Freddie Mac's development of "product and underwriting flexibilities" to spur the adoption of energy efficiency improvements. One useful feature would be to consider utility-bill savings from a solar system.

Appraisal Methodology

Solar systems can provide great savings on a homeowner's utility bill which can positively impact a home's value. When properly applied, SEIA does express a preference between the three appraisal approaches: sales-comparison, income, and cost. Given the confusion among appraisers about how to evaluate homes with solar, SEIA supports Freddie Mac's efforts to develop guidance so that a solar system is properly accounted for during a home appraisal.

The sales-comparison approach should only be used when residential solar market penetration passes a certain threshold for a particular market, perhaps 15%, so that an appraiser will have enough data points to make meaningful comparisons. Nationwide, residential solar penetration is in the low single-digits. SEIA also welcomes the opportunity to work with the housing industry to determine the appropriate market penetration threshold for the sales-comparison approach.

[1] See Duty to Serve Proposal, page 92 (emphasis added)

Education and Outreach

SEIA and the solar Industry offers its support in ongoing consumer education. For example, SEIA has a robust consumer education initiative to help consumers fully understand solar technology and transactions. SEIA is willing to work with the housing financing industry to explain solar and solar financing options, including promoting best practices.

Conclusion

SEIA appreciates the opportunity to provide the above comments about DTS and looks forward to working with Freddie Mac in developing a robust DTS program.

Sincerely,

/s/ Michael Mendelsohn

Michael Mendelsohn
Senior Director of Project Finance and Capital Markets
Solar Energy Industries Association