



DIVISION OF FINANCE

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Rob Barrett  
Commissioner

March 9, 2020

The Honorable Mr. Mark A. Calabria, Director  
Federal Housing Finance Agency  
Eighth Floor, 400 Seventh Street SW  
Washington, DC 20219

ATTENTION: PACE Request for Input, Notice No. 2020-N-1

Dear Director Calabria:

This correspondence is in response to the Federal Housing Finance Agency's (FHFA) "Request for Input" (RFI) regarding enhancing the actions to be taken on residential Property Assessed Clean Energy (PACE) liens in light of their continued threat to first lien mortgages and to homeowners and home purchasers from the lien priming effects of PACE loans.

As the regulator of 229 state chartered banks and trust companies, as well as three savings and loans institutions, the Missouri Division of Finance (Division) is equally concerned with the present and future risks that PACE super-priority liens can and do have on borrowers, banks, and the residential real estate market as a whole, as well as, entities directly regulated by the FHFA.

The Division recognizes and concurs that it is necessary for the FHFA to take additional steps to strengthen the integrity of mortgages financed via Fannie Mae and Freddie Mac. We also agree that the loans pledged to the Federal Home Loan Bank (FHLB) must remain sound to secure the funding extended to banks throughout Missouri. Nonetheless, the Division is concerned about the likely negative ramifications that stricter lending policies would have on Missouri residential borrowers. Therefore, the Division respectfully submits the following comments to questions posed in the RFI:

In regard to Question #1: If loan-to-value ratios are decreased for all loans in states like Missouri that have a residential PACE program, this could require Missouri borrowers to be subjected to increased financial burden due to:

- Higher Down Payment Requirements: A traditional down payment of 20% to avoid mortgage insurance expense would increase requiring a borrower to either increase their cash down payment, choose to pay mortgage insurance resulting in a higher monthly payment, or be forced to shop for a lower priced home.

As to Question #2: If the FHFA were to increase Loan Level Price Adjustments for Missouri loans this would result in:

- Higher Interest Rates or Loan Fees: A Missouri borrower, with the identical qualifications as borrowers in other states without PACE, will be treated differently by facing higher interest rates or loan fees due to the potential threat of an existing mortgage becoming a junior lien behind a new PACE assessment.

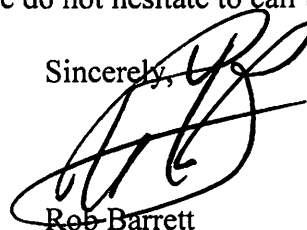
With regard to Question #4: Should the FHFA establish additional safety and soundness standards for the FHLB affecting banks' ability to pledge Missouri loans as collateral:

- Increased Collateral Requirements: Banks' access to capital from the FHLB could be reduced, as the potential risk of the bank's lien being made junior to a PACE assessment would make Missouri loans ineligible to be pledged as collateral. A decrease in funds available to Missouri banks would unduly limit their ability to make home loans in their communities.

The overall effect of restrictions on residential mortgage lending contemplated in the RFI, if implemented, would be far reaching. A vast majority of Missourians who will never acquire a PACE loan will be penalized. Furthermore, the overall state economy would be negatively affected by a decrease in the availability of credit and higher loan costs to Missouri homeowners and potential homeowners.

Based on the above, the Division respectfully requests that the FHFA consider not implementing further strictures on States that have residential PACE programs. Should you or your staff need anything or wish to discuss matters further, please do not hesitate to call upon the Division.

Sincerely,



Rob Barrett

Missouri Commissioner of Finance

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