March 5, 2020

Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20219

ATTENTION: PACE Request for Input, Notice No. 2020-N-1 Regarding: Continuation of PACE Energy Program

To Whom it May Concern:

Dividend Finance fully supports the continuation of the PACE Energy Program for two fundamental, factually-supported reasons:

1. **<u>PACE does not materially increase financial risk to the Enterprises</u>**. On the contrary, all available evidence suggests precisely the opposite: That PACE lowers the financial risk to the Enterprises and, in turn, yields net positive financial benefits to taxpayers.

    - FHFA has voiced its concern that PACE may materially increase financial risks to first mortgage holders and, by extension, the Enterprises. Fortunately, the validity of this perceived threat is readily measured. Over the last six years the precise degree of financial risk posed by PACE has been rigorously put to the test in California, the nation's largest housing market.

    - In 2014, the PACE Loss Reserve Program was launched to support residential PACE financing for energy or water efficiency improvements, the installation of distributed generation renewable energy sources, and electric vehicle charging infrastructure. This initiative was created to respond directly to concerns raised by the Federal Housing Financing Agency (FHFA) regarding the potential risks PACE financing may pose to first mortgage holders. Specifically, the PACE Loss Reserve Program mitigates potential risk to first mortgage lenders by making them whole for losses incurred due to the existence of a first-priority PACE lien on a property during a foreclosure or forced sale.[1]

    - The results over the last six years speak for themselves: The California PACE Loss Reserve Program has been minimally utilized. The California Budget Act of 2013 originally funded the Program with $10 million. According to the public agency managing the loss-reserve, the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), the same $10 million in original funding is expected to last beyond ten years in most scenarios.

    - From a risk-mitigation perspective, these empirical results from California collected over the last six years clearly demonstrate that the risks PACE poses to first mortgage lenders and the

[1] See: https://www.treasurer.ca.gov/caeatfa/pace/summary.asp

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Enterprises is essentially non-existent. Rather, this outcome is consistent with the performance of mortgages more generally, since the first mortgage lender always assumes some risk. What's statistically significant is that all evidence to date suggests that there is no added financial risk posed by PACE to mortgage lenders or the Enterprises.

- Some have also argued that PACE may increase the likelihood that homeowners become delinquent on their property taxes and thus pose some risk to the first mortgage lender's ability to recover its full investment in cases of home foreclosure. Such concerns, however, have not been borne out in practice. A recent 2018 research study by the credit rating agency DBRS, for example, found that PACE tax delinquency rates are lower than the general public aggregate property tax and single-family (residential only) property tax delinquency levels. PACE delinquency rates also compare very favorably against those of residential mortgages. The authors of this study suggest this could be a result of self-selection, which affirms the fact that homeowners with PACE care deeply about their homes and are willing to invest in them.

- Along these lines, PACE assessments cannot be accelerated by any governmental or private entity as a special property tax assessment. Only the property owner has the right to prepay a PACE assessment at their will or convenience. No taxing authority has the power to call the assessment due other than the current balance due and any amount in arrears. For these reasons, the measurable risks a first mortgage holder is subject to in the event of a foreclosure of a PACE property is notably limited: it only includes the current property taxes and any amount in arrears. The entirety of the remaining PACE assessment balance does not take priority. Thus, the likelihood that unpaid property taxes exceed the equity the mortgage holder possesses in the property is de minimis.

- Without clear or compelling evidence to the contrary, it would be arbitrary and capricious for FHFA to conclude that PACE materially increases risks to the Enterprises. To date, FHFA has offered no data to support the notion that PACE assessments decrease the value of mortgages and materially increase risks to the Enterprises. Thus, there is no evidence to support the need to consider potentially adopting new rules to that effect.

2. **PACE financed home improvements measurably <u>increase the value of homes and often reduce homeowners' energy costs and home insurance premiums</u>.** These factors make homeowners with PACE assessments more likely to benefit financially and fulfill their mortgage obligations.

- Throughout the RFI, FHFA seems to have unreasonably concluded that the added home value of PACE-financed home improvements is generally lower than the costs of PACE assessments. In other words, the concern is that the net value of home improvements financed by PACE might be negative and therefore reduce the value of underlying affected mortgages. This premise is unfounded and demonstrably false.

- Several empirical research studies demonstrate that PACE-financed home improvements measurably increase the value of homes and reduce homeowners' energy utility costs, thereby freeing up additional disposal income to make mortgage repayment more likely.

- For example, a Journal of Structured Finance study showed that property improvement projects funded by PACE assessments increase the value of the property. As a result, PACE improvement projects improve, not harm, the first mortgage holder's equity value -- a benefit to both homeowners and mortgage-insurers like FHFA. (Journal of Structured Finance study).

- This finding is also consistent with a 2011 Lawrence Berkeley National Laboratory study, which examined the sales of 2,000 homes across California with PV installations against a comparable set of 70,000 homes without PV systems. In short, the study found that there was a net positive average sales premium for homes with PV systems that exceeded the initial solar installation costs — a relevant fact since many homeowners use PACE to finance their residential solar systems with the understanding that such investments pay off in terms of higher home values and reduced electric utility costs.

- PACE-financed improvement projects are often used for home resiliency to natural disasters, such as hurricanes, earthquakes, and wildfires. Research by the University of Southern California's Schwarzenegger Institute shows a roughly 2 to 1 return on investment (ROI). In other words, every dollar of PACE-financed investment in home resiliency reduces over two dollars in property damage and displacement costs in the event of a hurricane.

- The same USC research study also shows similar results for seismic hardening in California. Homeowners who use PACE financing to make seismic upgrades not only reduce the risk of catastrophic damage to their properties, but also reduce the risk of potential losses to FHA-insured mortgages. Contrary to FHFA's concerns, PACE therefore often improves the safety of the underlying assets (i.e. mortgages). This "reduced risk" is also reflected in home insurance premiums in Florida, which are often reduced as a direct result of valuable home-hardening measures, wind and storm resiliency, being installed.

- As detailed above, there is no evidence in the public record that shows PACE assessments decrease the value of homes. On the contrary, all evidence available suggests precisely the opposite: That PACE-financed improvements increase the value of homes and, in turn, the overall value of the Enterprises' portfolio to the benefit of taxpayers.

We implore FHFA to continue the PACE Energy Program for these reasons.

DIVIDEND

Respectfully Submitted,

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