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CONNECTICUT
GREEN BANK

March 13, 2020

Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20219
ATTENTION: PACE Request for Input, Notice No. 2020-N-1

Re: PACE Request for Input, Notice No. 2020-N-1[1]

Sent via email: RegComments@fhfa.gov

To Whom it May Concern,

I am writing on behalf of Connecticut Green Bank with regard to the Property Assessed Clean Energy (PACE) request for information (RFI) that was announced on January 16th, 2020.

At its core, PACE provides financing for public purpose improvements, like energy efficiency, water conservation, and resilience against hurricanes and wildfires. PACE is an affordable financing solution that empowers residential property owners to make their homes safer and more efficient. Beyond its significant economic and environmental benefits, PACE increases the value of homes, reduces utility costs, lowers insurance premiums, and reduces the likelihood of total home loss during natural disasters. These key factors demonstrate the many tangible financial benefits that PACE offers homeowners, mortgage holders, and FHFA. PACE programs do not present a threat to the quality and stability of Enterprise loans.

We strongly support PACE because, in its 11-year history, this financing mechanism has:

- Expanded access to capital for energy, water, and resiliency home upgrades;
- Put American homeowners on a path to save billions of dollars on their utility bills;
- Eliminated unnecessary water waste, saving 11.5 billion gallons of water;
- Injected billions of dollars into local economies;
- Generated well over 42,000 local jobs;
- Reduced lifetime CO_2 emissions by 6.5 million metric tons;
- Helped to make over 220,000 homes more weather and fire resilient, energy efficient, and seismically sound.

Throughout the RFI, FHFA seems to have concluded that the increased home value made possible by PACE-financed 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 the underlying affected mortgages. This premise is unfounded and demonstrably

[1] https://www.federalregister.gov/documents/2020/01/16/2020-00655/property-assessed-clean-energy-pace-program

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 disposable income to make mortgage repayment more likely. For example, a study in the Journal of Structured Finance showed that property improvement projects funded by PACE assessments increase the value of the property after taking into account the cost of improvements. This positive "PACE premium" ranged from $199 to $8,882 at resale, on average, depending on the index used. The upshot is that PACE projects improve, not harm, the first mortgage holder's equity value — a benefit to both homeowners and mortgage-insurers, like the FHFA.

As noted above, PACE-financed improvement projects are also frequently used for home-hardening against natural disasters, such as hurricanes, wildfires and earthquakes. A new research study by the University of South Florida shows a roughly 2 to 1 return on investment (ROI) for hurricane resilience upgrades. In other words, every dollar of PACE-financed investment in home-hardening reduces over two dollars in property damage and displacement costs in the event of a hurricane. A study conducted by the University of Southern California found 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 preserves the value and resilience of the underlying assets (i.e. residential properties). This fact must be taken into account in FHFA's overall risk analysis.

The FHFA also expresses concern about the potential effects of adding PACE assessments to the annual property tax liabilities of homeowners. A 2018 study by DBRS Morningstar, a global credit ratings agency, should put these concerns to rest. This empirical study found that homeowners in California with PACE assessments have property tax delinquency rates that are in fact lower than the property tax delinquency rates of residential property owners generally. The Kroll Bond Rating Agency also reviewed property-tax performance data for California homes with PACE assessments and concluded there is no significant difference in the rates of property tax delinquency for residential properties with a PACE assessment compared to residential properties without a PACE assessment. Both of these independent, data-centered analyses arrived at the same conclusion: homeowners with PACE were not at increased risk of delinquency and default.

There is no evidence in the public record to support the view that PACE assessments decrease the value of homes or pose an added risk to mortgages. On the contrary, all available evidence 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 ask you to stand with local governments, American property owners, and Connecticut Green Bank in supporting PACE as a critical policy tool and vital financing option for homeowners.

Sincerely,

Bryan T. Garcia
President and CEO