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March 16, 2020

Hon. Mark A. Calabria, Ph.D  
Director  
Federal Housing Finance Agency, Eighth Floor  
400 Seventh Street, SW  
Washington, DC 20219

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

Dear Director Calabria:

On behalf of the entire PACE community, which includes more than a thousand state and local governments, community organizations, real estate professionals, financial institutions, manufacturers, and small businesses, I am writing in response to the Federal Housing Finance Authority's ("FHFA") Request for Input ("RFI") concerning residential Property Assessed Clean Energy ("PACE"). PACENation appreciates the opportunity to offer our comments.

At its core, PACE is a public policy tool that enables state and local governments to facilitate financing for improvements to private property that serve a public purpose. In particular, state and local governments across the United States have embraced PACE in order to facilitate environmental and safety improvements related to energy efficiency, water conservation, pollution reduction, and resilience against hurricanes, wildfires and earthquakes.

State and local governments support PACE because PACE works. Over the past eleven years, PACE programs have:

- 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 109,000 job years;
- Reduced lifetime CO2 emissions by 4.58 million metric tons;
- Helped to make over 280,000 homes safer, more resilient to natural disasters, and more energy and water efficient.

While the name "PACE" is just eleven years old, residential property assessed financing programs are not new. In fact, many such programs have been operating in states like Delaware, Massachusetts, and Minnesota for years. For example, Delaware's Septic Rehabilitation Loan

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Program<sup>1</sup> allows qualifying homeowners to finance upgrades to their septic systems through a property assessment. Similarly, Anoka County, Minnesota’s Agricultural Best Management Practices Program<sup>2</sup> allows qualifying property owners to finance upgrades to septic tanks, drinking water wells, and connection lines to municipal sewer and water. These programs are not called “PACE programs,” but that is precisely what they are.

PACE and PACE-like programs are popular in the states where they are available because they provide property owners with an affordable financing solution to make critical upgrades. Beyond its significant economic and environmental benefits (which are of paramount importance to state and local governments), PACE increases the value of homes, reduces utility costs, lowers insurance premiums, and reduces the likelihood of total home loss during natural disasters. These are just some of the many tangible financial benefits that PACE offers homeowners and mortgage holders like the Enterprises.

Contrary to the concerns raised by the FHFA in its RFI dated January 16th, 2020, all available data and evidence supports the conclusion that PACE programs do not present a threat to the quality and stability of Enterprise loans. For example, 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. A study in the Journal of Structured Finance showed that property improvement projects funded by PACE assessments increase the value of the property. 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 the first mortgage holder’s equity value — a benefit to both homeowners and mortgage-holders.<sup>3</sup>

As noted above, PACE-financed improvement projects are also frequently used for home-hardening against natural disasters, such as hurricanes, wildfires, and earthquakes. A research study released by the University of Southern California’s Schwarzenegger Institute, the first to analyze the resiliency impact of PACE programs, found that investment of \$275 million in hurricane protection property improvements by one PACE program administrator leads to \$507 million of avoided property damage and \$134 million of avoided property owner displacement costs.<sup>4</sup> A subsequent study conducted by the University of South Florida shows a roughly 2 to 1 benefit-to-cost ratio for hurricane resilience upgrades.<sup>5</sup> In other words, every dollar of PACE-financed investment in home-hardening reduces over two dollars in property damage and

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<sup>1</sup> See: <https://dnrec.alpha.delaware.gov/environmental-finance/septic-rehabilitation/>

<sup>2</sup> See: <https://www.anokacounty.us/2023/Well-Septic-Loans>

<sup>3</sup> See: <https://jsf.pm-research.com/content/21/4/6>

<sup>4</sup> See: <http://schwarzenegger.usc.edu/institute-in-action/article/impacts-of-the-property-assessed-clean-energy-program-on-the-economies-of-c>

<sup>5</sup> See: <https://www.usf.edu/pcgs/documents/pace-report-final.pdf>

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displacement costs in the event of a hurricane. The University of Southern California study also found similar results for seismic hardening in California.<sup>6</sup> 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 the Enterprises. Contrary to FHFA's concerns, PACE preserves the value and resilience of the underlying assets (i.e. residential properties).

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.<sup>7</sup> 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.<sup>8</sup>

We urge the FHFA to consider the aforementioned third-party analyses when conducting its overall assessment of PACE because Federal regulatory action to limit access to PACE and PACE-like programs would severely infringe on the rights of local governments to exercise authority granted to them by the United States Constitution. Federal regulatory action to limit access to PACE would also infringe on the fundamental rights of property owners to access capital to make their properties more efficient, livable, and secure. The rights of local governments and property owners should not be trampled upon.

The policies the FHFA is considering in this RFI would not only infringe on the rights of local governments and property owners, they would also harm the economies of the states with existing senior lien residential PACE programs by limiting access to housing. Further, they would harm the broader national housing market, causing significant turmoil in the US economy. The policies the FHFA contemplates in the RFI are particularly unwarranted given that no evidence has been shown to support the claim that PACE does in fact pose any identifiable or quantifiable threat to the Enterprises' portfolios or their underlying collateral. In fact, all

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<sup>6</sup> See: <http://schwarzenegger.usc.edu/institute-in-action/article/impacts-of-the-property-assessed-clean-energy-program-on-the-economies-of-c>

<sup>7</sup> See: <https://www.dbrsmorningstar.com/research/323286/dbrs-publishes-commentary-on-residential-pace-delinquency-trends>

<sup>8</sup> See: [https://www.krollbondratings.com/show\\_report/11071](https://www.krollbondratings.com/show_report/11071)

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evidence, data, and research shows the opposite, that PACE has a positive impact on the Enterprises' portfolios and underlying assets.

As a special property tax assessment, PACE is a legal mechanism authorized and enacted by state and local governments. It is similar in form and substance to all other special property tax assessments placed on a property by a city, county, or other state governmental body. It is worth noting that the FHFA has not raised any of concerns it expresses in its RFI about any other types of special property tax assessments, including those offered in states like Delaware, Massachusetts and Minnesota, which are identical to PACE assessments. That is because this public policy tool has existed for centuries—long before the modern, federally guaranteed mortgage—and has benefited property owners for just as long. It is fully within the legal rights of local governments and property owners to use PACE as a means to strengthen their communities and improve private property. FHFA has no justification for changing that.

Thank you again for the opportunity to offer comments on this RFI. We ask you to stand with local governments and American property owners in supporting PACE as a critical policy tool and vital financing option for homeowners.

Sincerely,

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